

In a year of considerable uncertainty, we maintained our focus on long-term planning and investment for sustainable and affordable services for customers of Anglian Water

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COMPANIES HOUSE

CO. NO. 236656

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

Did you know?

The Anglian Water region has not had a hosepipe ban since 1991.

Nearly a quarter of the energy we use comes from renewable sources.

Cover: Female osprey at Rutland Water, March 2009/John Wright, Rutland Osprey Project.

Inside cover: Aerial view, laying pipes from Rutland Water.

Contents

Business Review

- 02 Key performance indicators
- 04 Chief Executive's statement
- 06 Our business environment
- 14 Delivering service
- 30 Building relationships
- 34 Managing risk

Financial Review

- 38 Financial Review
- 42 Anglian Water board of Directors
- 44 Directors' report
- 47 Statement of Directors' responsibilities

Statutory accounts

- 48 Group profit and loss account
- 49 Group statement of total recognised gains and losses
- 50 Group and company balance sheets
- 51 Group cash flow statement
- 52 Notes to the group cash flow statement
- 54 Notes to the financial statements
- 83 Independent auditors' report

Regulatory accounts

- 85 Regulatory accounts and required regulatory information
- 86 Statement of Directors' responsibilities for regulatory information
- 87 Notes on regulatory accounts
- 88 Regulatory historical cost profit and loss account
- 89 Regulatory historical cost statement of total recognised gains and losses for the appointed business
- 90 Regulatory historical cost balance sheet
- 91 Historical cost reconciliation between statutory accounts and regulatory accounts
- 92 Additional information required by the licence
- 99 Current cost profit and loss account for the appointed business
- 100 Current cost balance sheet for the appointed business
- 101 Current cost cash flow statement
- 102 Notes to the current cost financial statements
- 112 Supplementary regulatory information
- 113 Independent auditors' report

Glossary of regulatory terms

- 116 Glossary of regulatory terms

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

Our key performance indicators

	What we measure	The measurements we use	How it relates to our strategy
Health and Safety	Accident frequency rate	Number of accidents per 100,000 hours worked.	Indicates how safely we work. Fundamental to everything we do.
	Corporate Health and Safety Performance Index (CHaSPI) ¹	The Health and Safety Executive performance measurement. Scored out of 10.	Helps us measure and benchmark management of risks and responsibilities towards employees, the public and other stakeholders.
Operational	Drinking water quality ²	Our 'mean zonal compliance' performance in the calendar year 2008.	One of our fundamental public service goals is to deliver a reliable supply of clean, safe drinking water.
	Lost water ³	Cubic metres of water lost per kilometre of main per day. (m ³ /km/day)	In our dry region, minimising leaks in our network and our customers' pipes improves efficiency.
	Overall Performance Assessment (OPA) results ⁴	Ofwat's mix of customer-related measures.	Measures our operational performance against the rest of the industry.
	Capital expenditure ⁵ £ million	Total spend from 1 April 2005 to 31 March 2009, increased by construction-related inflation.	How much investment we have delivered in this five-year Asset Management Plan period.
Financial	Operating expenditure ⁶ £ million	Operating costs (excluding depreciation) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives. A key measure against the rest of the industry.
Environmental	Carbon footprint ⁷	CO ₂ emissions equivalent in tonnes.	Measures our impact on the climate.

¹ For more information, see www.hse.gov.uk or www.chaspi.info-exchange.com

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

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

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

⁵ Cumulative spend from 1 April 2005 to 31 March 2009, inflated by Construction Outputs Price Index (COP1) to 2008/09 prices.

⁶ For the appointed and non-appointed businesses at outturn prices.

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

Our performance

Accidents per 100,000 hours worked (target=0.34)

2008/09	0.39
2007/08	0.37
2006/07	0.39

CHaSPI¹

2008/09	7.7
2007/08	7.4
2006/07	7.3

Mean zonal compliance (%)²

2008/09	99.98
2007/08	99.96
2006/07	99.95

Total leakage (m³/km/day)³

2008/09	5.6
2007/08	5.6
2006/07	5.5
2005/06	5.8

Provisional OPA results (points)⁴

2008/09	415
2007/08	419
2006/07	413
2005/06	388

Capital expenditure in four years to March 2009 (£m)⁵

determination	1,624
actual	1,649

Operating expenditure (£m)⁶

2008/09	363.5
2007/08	331.2
2006/07	324.7
2005/06	314.4

CO₂ emissions equivalent (tonnes CO₂)⁷

2008/09	540,535
2007/08	527,067
2006/07	537,363

In context

In addition to continued focus on serious accident prevention, we are working to reduce slips and trips in 2009/10 as they account for the majority of accidents.

Health and Safety is led by the board. Clear upward trend reflects our commitment.

Our highest level of performance since this measure was introduced in 2004.

Almost half the UK average.

We maintained a strong position in 2008/09 and are likely to remain highly ranked when Ofwat's final results are published.

Capital investment plan is on track for the current five-year period (AMP4).

Up by 9.8 per cent on the previous year due to above RPI increases in power and commodity prices, and Pitsford incident costs.

We have reduced our energy demand and are committed to reducing our carbon impact throughout the business.

Chief Executive's statement

Our business environment
 Delivering service
 Building relationships
 Managing risk

Chief Executive's statement

Jonson Cox

Chief Executive
 Anglian Water

This has been a year of extraordinary volatility for the UK economy. This has challenged our business, as well as many of our customers, to adapt to unprecedented levels of economic uncertainty.

Despite this, I am very pleased to report that Anglian Water has performed strongly. We have continued to be recognised as one of the region's largest and most significant companies, helping to underpin growth and competitiveness in one of the fastest growing areas of the UK. We have also reaffirmed our position as a regional and national leader in the wider public policy debates on climate change and environmental protection, winning widespread recognition for the practical work we are doing on the ground.

We have maintained high levels of customer service and have met the productivity and efficiency targets we set ourselves. We have successfully prioritised the management of both risk and finances. In the context of our long-term strategic objectives, we have

been able to submit to Ofwat a realistic *Final Business Plan* for the regulatory pricing period 2010/15 which has support from the region we serve.

At the same time, we have kept a firm focus on two key business priorities. First, to deliver a high-quality and affordable service to our customers; and second, to meet the responsibility we have to prepare for one of the biggest challenges to our business – climate change.

Delivering service to our customers

We entered the year as the leading water and wastewater company in terms of Ofwat's Overall Performance Assessment (OPA) for the second consecutive year. We maintained this strong position in 2008/09 with a provisional score of 415, which we believe will be among the best in the industry when it is confirmed later in the year. We also saw further improvement in our Customer Service Index, which monitors our performance against a suite of measures that reflect what our customers tell us they want.

This is what we're about

Delivering a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price.

**The challenges we have set ourselves**

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



We have placed renewed emphasis on the needs of our customers, aware that economic uncertainty has meant that some are facing difficulties in paying their water bill. Our assistance fund has continued to offer support to those in genuine financial difficulty, but at the same time, the number of customers who can pay but choose not to has become of considerable and growing concern to us.

This focus on the needs of our customers was our guiding principle when, in June 2008, we detected *Cryptosporidia* in routine water quality samples taken from the Pitsford Water Treatment Works in Northamptonshire. We acted immediately and decisively, taking the precautionary approach of advising customers in over 100,000 homes to boil their tap water. A high-profile public information campaign ensured that customers were alerted quickly and kept informed throughout the incident, as we worked closely with the Drinking Water Inspectorate, health protection agencies and community organisations to restore normal supplies after 10 days; much earlier than anticipated.

Financial performance

Our financial performance has also continued to be robust. Turnover for the year increased seven per cent to £1,037.4 million, while operating profit was up 5.8 per cent to £445.6 million.

The economic uncertainties of the year brought rapid increases in commodity prices, particularly the cost of electricity. Although we succeeded in offsetting or absorbing a proportion of these increases, and prices returned to more normal levels in the autumn, our operating costs have been markedly higher this year.

Towards the end of the year inflation fell rapidly and the outlook remained particularly unpredictable, which we judged could adversely affect our levels of debt finance and cost of raising additional funds. In response, in March 2009, our owners, the Osprey consortium of investors, provided £90.0 million of additional funds to Anglian Water, so as to maintain and improve our financial resilience.

Five-year regulatory review

This year has been an important one for the current price review process, which will determine the scale of Anglian Water's investment programme, and therefore the prices customers will pay, for the next five-year Asset Management Plan period (AMP5) between 2010/15.

In April 2009 we submitted our *Final Business Plan* to Ofwat. With affordability for customers one of our principal priorities, we have listened to our customers' views and worked hard to limit proposed bill rises. We believe

that the plan we have submitted gives our customers excellent value for money. It proposes a capital investment programme of £2.26 billion, which represents an average increase of 0.6 per cent per year, excluding inflation, over five years – well within the one per cent aspiration in our 25-year strategic plan. If accepted, the average household bill will increase by £11, excluding inflation, from £362 in 2010 to £373 in 2015. Ofwat is due to respond to our plan in its Draft Determination in July, ahead of its Final Determination in November 2009.

Outlook

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

I would like to thank my colleagues across Anglian Water, and all our suppliers and business partners for their energy, commitment and support in serving our customers in this challenging and uncertain year. Their efforts have ensured that we are in the strongest possible position, and able to look to the future with confidence.

Jonson Cox

How we meet our obligations and achieve our aims

Our business environment

▶ 06

Meeting the challenges of climate change

▶ 16

Managing risk

▶ 34

Delivering service

▶ 14

Building relationships

▶ 30

Chief Executive's statement
Our business environment
Delivering service
Building relationships
Managing risk

1.2 billion litres

We supply 1.2 billion litres of water a day, the same as in 1989, even though our population has increased by 20 per cent.

Our business environment

The services we provide are essential to the life and health of our millions of customers and to the economy of our region.

Our region is one of the fastest growing in the UK, both in terms of population and economy. It makes an increasingly valuable contribution to national competitiveness and is part of the Greater South East economic powerhouse that drives research and development, business success and creative and cultural excellence.

The region's economic energy creates significant pressures on housing, transport and other infrastructure and services, and places increasing value on the beautiful landscape, biodiversity and cultural heritage we enjoy here.

It is in this context that our millions of customers live and work, and in which we operate.

The successful delivery of our business strategy depends on our ability to predict and manage change; to better understand the needs and aspirations of our customers; and to lead the way in tackling climate change and planning for regional growth.

We must achieve this within the boundaries of the strict legal and regulatory standards under which we manage our business and deliver the levels of customer service and investment in infrastructure our customers expect.

£2.0 billion

Between 2005 and 2010 we will have invested £2.0 billion in our water and wastewater services.

What we do

We borrow water from the environment, store it, treat it to a high standard and deliver it to our customers through an underground distribution network.

Once the water has been used, a large proportion is returned to us through our network of sewers. The wastewater is separated, treated to the highest standards and returned to the region's watercourses. The organic solids are treated and supplied to farmers for use as a soil conditioner. The remaining inorganic material – around 3.5 per cent of extracted solids – is then sent to landfill.

This work requires significant investment. Between 2005 and 2010, Anglian Water will have invested £2.0 billion (at 2008/09 prices) in our services. This is in addition to the £4.7 billion that was invested between 1990 and 2005.

Our infrastructure

Drinking water

Every day Anglian Water supplies around 1.2 billion litres of high-quality drinking water to 4.3 million domestic and commercial water customers through 136 water treatment works and more than 37,000 kilometres of water mains.

The water in the west of the region comes mainly from reservoirs, which store water taken under licence from nearby rivers. The east of the region relies principally on natural underground reserves known as aquifers.

The geology of our region means 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 64 per cent are currently metered. This is one of the highest proportions of any major UK water company.

We want to extend metering to 80 per cent of our domestic customers by 2014/15 and to all customers where it is a practical option by 2035. Metering is fundamentally important as we work to improve efficiency by encouraging reductions in consumption by our customers. (See pages 25–26.)

Wastewater

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

We collect approximately 954 million litres of wastewater every day from 5.5 million customers, including customers who receive their water from other companies. Anglian Water's wastewater network includes 44,041 kilometres of pipes connected to 1,114 wastewater treatment works.

217
boreholes

44,041
km of sewers

18
reservoirs

37,477
km of water
mains

136
water
treatment
works

1,114
wastewater
treatment
works

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

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.

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 to help transport water, which uses a lot of electricity.

Many treatment works

Because of the size of our region, we operate 1,250 water and wastewater treatment works. This is around a quarter of all those in England and Wales.

Long coastline

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

Large reservoirs

We own 18 reservoirs. The 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 special care.

Our unique region

Our unique region extends from the Humber to the Thames estuary and from Buckinghamshire in the west to the seaside resorts of Felixstowe and Great Yarmouth on the east coast. It also includes Hartlepool in the Northeast.

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.

Productive agricultural land

Our region has 58 per cent of the most productive agricultural land in England and Wales¹. Our treatment processes are designed to remove the chemicals and pesticides that can enter watercourses through agricultural land.

Fast-growing region

Long-term predictions are that up to a million new homes will be built in our region in the next 25 years for our growing population². Our challenge is to meet the additional demand for water and wastewater services.

Biodiversity

Land and reservoirs owned by Anglian Water are home to internationally important habitats for flora and fauna. Our Biodiversity Action Plan helps to protect and enhance the environment in our region.

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.

Impact of climate change

We anticipate the risk of flooding will increase in our low-lying region. Analysis of sea level rise, weather patterns, flood zones and coastal erosion identifies over 150 of our key assets as vulnerable. We propose to invest close to £37 million in flood protection and recovery.

¹ Environment Agency data

² Anglian Water/Regional Assembly forecasts

Hemingford Meadow, Huntingdonshire.

Services and supply across our region

The map shows the services we provide in different areas of our region and the sources of our supply.

Our head office is at Huntingdon, Cambridgeshire.

Anglian Water company structure

Anglian Water Services is the principal subsidiary of Anglian Water Group Limited (AWG). The company is owned by a consortium of investors, as shown in the table (see right).

Anglian Water Plc was first listed on the London Stock Exchange in 1989 when the water industry in England and Wales was privatised. AWG Plc, as it then became, was subsequently de-listed from the London Stock Exchange in December 2006 following its acquisition by Osprey.

Leading the company

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

The board of the parent company consists of six investor representatives, the Chief Executive and Group Finance Director and a Non-Executive

Areas in which we provide wastewater services only

- 1 Severn Trent Water
- 2 Thames Water
- 3 Cambridge Water
- 4 Three Valleys Water
- 5 Essex and Suffolk Water
- 6 Tendring Hundred Water

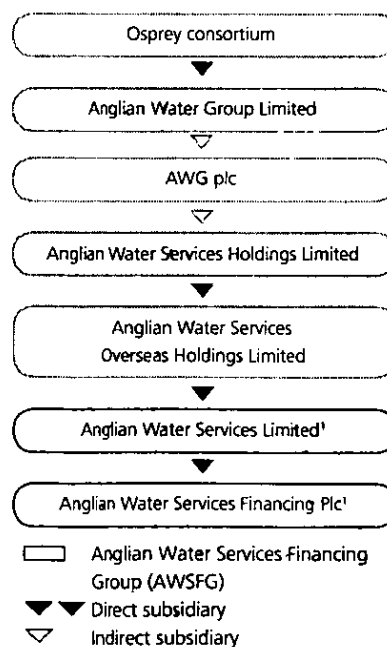
- Water services only
- Wastewater services only
- Water and wastewater services
- Groundwater supply

Chairman. Early in 2009 Sir Adrian Montague was appointed Chairman, succeeding Peter Hickson, who stepped down in March.

Anglian Water is managed by the Executive team, which, in addition to the Executive Directors (see pages 42–43) includes:

Legal Director, Claire Russell; Director of Corporate Affairs, Mark Pendlington; HR & Change Director, Kate Kelly; Director of Wastewater and Operational Management Centre, Paul Gibbs; Customer Services Director, Martyn Oakley; Head of Water Services, Paul Valleley; Director of Finance, Mark Anderson; Director of Information Services, Chris Boucher; and Head of External Communications, Andrew Mackintosh.

Anglian Water ownership structure



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

Chief Executive's statement
Our business environment
 Delivering service
 Building relationships
 Managing risk

For Anglian Water's *Final Business Plan* for 2010/15 please go to www.anglianwater.co.uk

Financing

Anglian Water is funded predominantly by debt in the form of long-term bonds and other debt instruments, rather than equity (shares). Net debt accounts for approximately 81.8 per cent of Anglian Water's regulatory capital value.

The debt-funding structure, which was established in 2002, has resulted in Anglian Water's capital costs being consistently lower than the industry average. We share the financial benefits of this efficiency structure with our customers in the form of lower bills.

Even during the current period of global economic and financial uncertainty, this debt-funding structure continues to be robust. We have

continued to successfully access the debt markets during the year. The company issued a €500.0 million eight-year Eurobond (£394.0 million) and a ¥5.0 billion 30-year note (£25.1 million) in the first half-year, and a £25.0 million 25-year private placement in the second half-year.

Following the unprecedented falls in interest rates and inflation levels, Osprey Holdco (a wholly owned subsidiary of the ultimate holding company), provided £90.0 million of additional funding to Anglian Water in March 2009, by way of a subordinated loan. The funds were provided to maintain and improve headroom in near-term covenants following the rapid fall in and unpredictable outlook for the Retail Price Index (RPI).

Overview of the Osprey consortium

Organisation	% ownership	Origin	Assets*	Description
Colonial First State	32.3%	Australia	A\$123.8bn	Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group.
CPP Investment Board	32.3%	Canada	C\$108.9bn	CPP Investment Board is an investment management firm established to invest funds received from the Canadian Pension Plan.
IFM	19.3%	Australia	A\$15.7bn	IFM (International Infrastructure) Wholesale Trust is a fund that holds investments in international infrastructure assets. Ultimately owned by Members Equity Bank Pty Ltd.
3i	16.1%	UK	£8.0bn	3i is an international leader in private equity, focused on buyouts, growth capital and infrastructure in Europe, North America and Asia.

* Assets under management at 31 March 2009

Regulatory environment

The water industry is one of the most highly regulated sectors in the UK. Various Government agencies regulate different aspects of our performance.

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

The water industry operates on five-yearly cycles known as Asset Management Plan (AMP) periods. Ofwat sets prices at the beginning of each period, following submissions from each company about what it will cost to deliver their plans. In April 2009, following extensive consultation, Anglian Water submitted its *Final Business Plan* for AMP5 (2010/15) to Ofwat.

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

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

We work closely with other agencies on environmental, planning and customer care issues.

Organisation

Responsibilities

Ofwat

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. It monitors and enforces performance standards and promotes competition where appropriate.

DWI

The Drinking Water Inspectorate (DWI) is responsible for assessing and enforcing the quality of drinking water in England and Wales.

Defra

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.

Communities and Local Government

The Communities and Local Government Department sets policy on local government, housing, urban regeneration, planning and fire and rescue.

Environment Agency

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.

Natural England

Natural England is a public body that works to conserve and enhance the natural environment of the English countryside.

Consumer Council for Water

The Consumer Council for Water is an independent body, funded by water companies through annual licence fees. It represents the interests of customers in relation to the price and quality of service from water companies.

Chief Executive's statement
Our business environment
 Delivering service
 Building relationships
 Managing risk

Regulation and performance

One of Ofwat's primary roles is to drive companies to improve their performance, efficiency and customer service. It benchmarks all companies' performances against the industry's leading ('frontier') companies. Those at the frontier are allowed additional revenue and are set the smallest efficiency targets in 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 benefits customers.

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

Three separate developments within our region are now served by

independent companies, including one in 2008/09 at Great Billing, Northamptonshire. Since 2005, industrial customers using more than 50 megalitres of water per year (Ml/year) have also been able to choose which company supplies their water services; Anglian Water, or one of a number of independent water companies.

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

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

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

Changes to regulations

In the pre-budget report in November 2008, the Government announced a range of measures to extend and enhance competition for large non-domestic customers in England. The measures included:

- Reducing the threshold above which companies can switch supplier, from 50Ml/year to 5Ml/year.
- Extending the competition regime to retail wastewater services.
- Removing the current access pricing

arrangements for water from legislation, replacing it with simplified criteria to be introduced by Ofwat.

The future of competition

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

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

The Cave Review of competition and innovation

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

Representatives from Anglian Water met Professor Cave and his research team on a number of occasions during 2008. The review, which was published in April 2009, makes a number of substantial recommendations on the inset regime and the competition threshold, including proposals as follows:

- The merger regime should be changed to allow retail entities to merge without reference to the Competition Commission.

More information is available from Ofwat at www.ofwat.gov.uk and Defra at www.defra.gov.uk

- Increase the incentives to incumbents to innovate and outperform and address the potential bias to capital expenditure.
- Ofwat should give customers and their representatives a greater role in determining the services provided by their water company through 'negotiated settlements'.
- An obligation for incumbents to procure the best-value combination of water, wastewater and infrastructure supplies, with decisions scrutinised by a new 'Procurement Panel'.

We are considering these recommendations, and in the meantime, continue our focus on improving business processes and levels of service to all our customers.

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

Price Review 2009

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

This year has been an important one for the current price review process, which will determine the scale of Anglian Water's investment programme, and therefore the level of customers' bills, for the period

2010/15 (AMP5). It is the first review to take place within the context of Anglian Water's 25-year *Strategic Direction Statement*.

In August 2008 we submitted our draft business plan to Ofwat. Following further consultation, we submitted our *Final Business Plan* in April 2009.

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

Our plan proposes a capital investment programme of £2.26 billion for the period 2010/15 which will allow us to continue to invest in services and infrastructure. Together with other increases in operating costs, this will result in an increase in average customer bills of 0.6 per cent per year, excluding inflation, over the five-year period. If Ofwat accepts our plan, the average household bill would increase by a total of £11, excluding inflation, over the five-year period, from £362 in 2010 to £373 in 2015.

Our priority has been to balance prices, service performance, quality and risk while ensuring that we continue to meet our fundamental objectives: clean, safe, reliable drinking water and effective wastewater services delivered at an affordable price.

Ofwat is due to respond to our proposals in a Draft Determination in July, ahead of the Final Determination in November 2009. The new prices will

come into effect in April 2010.

The Walker Review of tariffs and metering

Since the mid-1990s Anglian Water has been at the forefront of tariff development, providing a range of tariffs to suit customers' varying needs.

We were the first company to introduce separate tariffs for households with low water use and the first to introduce special tariff options aimed at large low-income families and those with medical conditions requiring high levels of water use. We also offer a special tariff for metered customers on benefits. Similar initiatives have subsequently been adopted by Government and extended to the whole water industry.

Anglian Water leads the industry in the use of water meters to manage demand within its region, which is the driest in the country. The vast majority of non-household, and 64 per cent of household, customers currently use water meters. The company's goal is for all customers to have a metered supply, where it is a practical option, by 2035 (for more information, see pages 25–26).

Following the publication of its 'Future Water' strategy, the Government initiated a review of current tariff and metering arrangements in the water industry, led by Anna Walker.

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

See our *Strategic Direction Statement* on our website www.anglianwater.co.uk

Chief Executive's statement
Our business environment
Delivering service
Building relationships
Managing risk

Delivering service

We deliver a reliable, high-quality and affordable service to our customers. We constantly review our performance against regulatory requirements, other leading service providers, and our own long-term strategy.

2008/09

Our priorities in 2008/09

- Improving customer service.
- Understanding and meeting the challenges of climate change.
- Investing in our infrastructure.
- Improving our efficiency by managing demand, conserving water resources and reducing energy use.

Great Billing Wastewater Treatment Works.

Performance highlights

We entered the year as the leading water and wastewater company in terms of Ofwat's Overall Performance Assessment (OPA) for the second consecutive year. Our 2007/08 score was 419 out of a maximum of 438 points. With strong performances in wastewater treatment compliance and customer service this year, we expect to remain among the industry leaders.

Despite this strong performance overall, we anticipate our actual OPA score for 2008/09 will be down slightly, at 415. This year we have learnt valuable lessons in the prevention and handling of pollution incidents (see page 23 for further details) and we continue to work to reduce incidences of sewer flooding.

We're improving customer service
In 2008/09 we surveyed around 31,000 customers. 93 per cent are satisfied we keep our promises. Find out more on page 18.

We completed our Final Business Plan for the next five-year investment period, 2010/15
One of our top priorities is to ensure that our sites and operations are ready to meet the challenges presented by changes to our climate. See pages 16–17 for more on how we are meeting the challenges of climate change.

We are conserving our water resources

This year we successfully tackled the high number of mains bursts caused by the severe winter weather, keeping our leakage rates at half the national average.

And 64 per cent of our customers have meters – one of the highest proportions in the country. We've challenged ourselves to increase this number.

Find out more about how we conserve water resources in our dry region on page 24.

This year's unpredictable energy prices are just one reason we're reducing our consumption

We saved £2.4 million in energy costs in 2008/09 and, for the second year running, cut our overall energy use. Read more on our continuous efficiency improvements on page 29.

Water quality is improving year on year

This year there are 17 Blue Flag beaches in our region, two more than last year.

Find out more on bathing and river water quality and our army of RiverCare volunteers on pages 26–27.

Drinking water quality was generally excellent, with our highest ever score on the Drinking Water Inspectorate's scale. See page 23.

Award-winning Anglian Water

We won a host of awards in 2008/09 for our work with communities, education and the environment. Read more about our Licence to Operate

training programme, awarded a Utility Industry Training Award, on page 19. Our Health and Safety programme scored a hat-trick with its third consecutive Gold Award from the Royal Society for the Prevention of Accidents. Read more on page 19.

We are investing in protecting and improving our infrastructure

Main examples are a £115.0 million project at Rutland Water and major wastewater projects in Great Yarmouth and Norwich.

In addition, continued investment in our infrastructure this year means we are:

- Leading in innovative wastewater treatment and recycling technology.
- Delivering higher drinking water quality despite deteriorating groundwater supplies.
- Saving 10 GWh of electricity every year.
- Self-sufficient in energy at some of our sites.
- Protecting wildlife and enhancing the landscape and meeting increased water demand.

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

Business Review	Financial Review	Board of Directors	Directors' report
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Chief Executive's statement
Our business environment
Delivering service
Building relationships
Managing risk

Meeting the challenges of climate change

One of our top priorities this year has been to create a *Final Business Plan* that ensures our sites and operations are ready to meet the challenges of our changing climate.

Climate change is one of the biggest threats our business faces

The consequences of failing to plan and act are serious – coastal erosion, a rise in sea levels, irreparable damage to the environment and a threat to many local communities.

- Our low-lying region is uniquely vulnerable to flooding.
- We have identified around 150 major Anglian Water assets as vulnerable.
- We have produced a risk-based proposal for close to £37.0 million of investment in site flood protection or recovery work.

Ensuring supply for our growing region

- Our region is one of the fastest growing in the UK, with up to a million new homes forecast by 2035.
- We supply the same amount of water now, 1.2 billion litres a day, as we did in 1989, despite a 20 per cent increase in population.

We work to reduce our contribution to climate change and to adapt to its impact

- We play a leading role regionally, nationally and internationally. Our Chief Executive is a member of The Prince of Wales's Corporate Leaders Group on Climate Change. He contributed to the November 2008 Poznan Communiqué.
- When designing and constructing projects, we work with contractors to calculate and reduce carbon emissions.

We manage our precious water resources carefully

- Our leakage rate is currently one of the lowest in the UK, at half the industry average.
- 64 per cent of our domestic customers are metered – one of the highest proportions in England and Wales.
- On average, metered customers use between 10 and 12 per cent less water than those without meters.
- We offer a range of advice and support to our domestic and business customers, helping them use water efficiently and cost-effectively.

We are cutting our overall energy use

Operating in the flattest and driest region of the UK, reducing our reliance on electricity and increasing the use of renewable energy is key to combating climate change.

- 22.6 per cent of our energy comes from renewable sources.
- Energy represents 17 per cent of our total operating costs. Reductions make good business sense.
- Treating and transporting water and wastewater to and from our customers across our large and flat region uses a lot of energy. Our focus on reducing the amount of energy we use makes us more efficient and reduces our impact on the environment.
- Over the last three years we've saved £10.0 million in energy costs.
- Our King's Lynn Wastewater Treatment Works is self-sufficient in energy.

We take seriously our responsibility to the region's environment

- 99.34 per cent of the Sites of Special Scientific Interest in our ownership are in 'favourable' or 'recovering' condition, ahead of Government targets for 2010.
- We work to ensure that ecologically sensitive watercourses are protected and that the quality of wastewater effluent discharges complies with required standards.
- We published our biodiversity guide in 2008 to help staff identify wildlife they observe at our sites. They learn more about the biodiversity of our region and report back what they see by using the guide's wildlife survey forms.

Rutland Water showing the wildlife lagoons.

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

**Up
5.48%**

In 2008/09 we surveyed around 31,000 customers. 93 per cent say we keep our promises.

Improved customer service

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.

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

This focus on improving customer service has yielded significant results this year. 93 per cent of our customers say they are satisfied we kept our promises, up five per cent from last year (baseline 2006: 66 per cent).

Our Customer Service Index (CSI) continued its upward trend, increasing by 24.6 points or 25.3 per cent. The CSI goes beyond Ofwat's requirements and measures our performance against four customer-related standards. In 2008/09:

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

- Service delivery failures have also fallen by 23 per cent from 468 to 360.

The total number of written complaints has reduced this year by nearly four per cent overall. The final quarter of the year recorded a significant 33 per cent improvement compared to the previous year.

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

We are pleased with these results and are setting targets to ensure these improvements continue.

Creating the environment for success

Creating a stimulating and rewarding working environment, where our employees are motivated and engaged with our aims, is vital to our business success. We take seriously our responsibilities as one of the region's largest employers, investing heavily in the health and safety of our 3,800 employees. We also devote considerable resources to building the skills of existing employees and attracting high-calibre recruits for the interesting and worthwhile careers we are proud to offer.

Health and Safety is a top priority

It is a basic fact of life at Anglian Water that nothing is so important that we cannot take the time to do it safely. We are firm in our belief that all accidents are preventable, and health and safety is on the agenda for all management meetings, with updates on performance reported to the Anglian Water board on a monthly basis.

Safe and well

As part of our *Safe and well* safety management system, we train each of our own employees and our contractors in health and safety practice and issues. Training is regularly reinforced in messages on safe working practices to all employees and contractors in face-to-face sessions and through internal newsletters, posters and the employee intranet. This year, for the third year running, the Royal Society for the Prevention of Accidents (RoSPA) recognised our commitment to health and safety with their prestigious Gold Award.

Safe and well is externally verified and has achieved certification under the internationally recognised quality assurance system, OHSAS 18001, with regular safety audits carried out by Lloyd's Register Quality Assurance. Our next audit takes place later in 2009.

Measuring our performance on Health and Safety

All accidents and incidents, no matter how minor, are reported to the Occupational Health and Safety team. We actively encourage reporting a 'near miss' – any incident which could have resulted in an accident – to identify and help prevent actual accidents in the future.

Any accidents which do occur are included in the Accident Frequency Rate (AFR) data, as shown in the table below. This tracks the number of accidents per 100,000 hours worked. Although our overall performance on health and safety is improving year on year, the number of accidents rose slightly in 2008/09, mainly due to more 'slips and trips'. A campaign to reduce these preventable accidents is planned for 2009/10.

In addition, we evaluate our performance against the Health and Safety Executive's (HSE) voluntary Corporate Health and Safety Performance Index – CHaSPI.

CHaSPI considers our statistics and also looks at how we manage health and safety issues. It gives a more useful overall picture of our performance, which is improving year on year. Our CHaSPI score is 7.7 out of 10 in 2008/09 (2007/08: 7.4) benchmarked

against an average of 6.7 across 116 participating organisations.

Developing our people in worthwhile careers

The environment in which we operate is challenging and dynamic. We recognise that our continuing success depends on attracting, retaining and developing skilled and talented people. We aim to be the employer of choice in our region and are working with partner organisations to ensure we can attract the right calibre of recruits, including apprentices and graduates.

Training and career progression

Our system of annual personal development reviews helps employees and their managers to review their performance and plan their development.

We offer high standards of technical and professional training. This year our Licence to Operate training programme won a Utility Industry Training Award. The judges praised the programme as offering well-structured training and confirmed it as evidence of our strong commitment to employee development. Licence to Operate is externally accredited, and develops the existing skills of our employees, with a series of practical and written tests assessing strengths as well as identifying training needs.

Measure	2005/06	2006/07	2007/08	2008/09
Accident Frequency Rate ¹	0.39	0.39	0.37	0.39
Percentage time lost ²	2.85	2.81	3.20 ³	3.24
CHaSPI Index	7.1	7.3	7.4	7.7

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.

³ Previously reported as 2.88.

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

All our current Water Networks and Supply Technicians are now rated as competent under Licence to Operate, while Wastewater Technicians are due to complete the programme by March 2010.

We offer employees opportunities to develop skills and experience through project work and secondments across our varied operations. In addition, we encourage employees to take part in our *give me five* community volunteering scheme which helps them develop leadership and project management skills while contributing to the communities in our region.

Listening to our people

Listening to employees, acting on their views and involving them in improving our business is very important to us. We encourage employees to learn about and comment on our business priorities and plans and are taking action to improve communications at all levels.

Rating our performance as an employer

Each year we ask our employees to rate our performance as an employer in an anonymous survey conducted on our behalf by Ipsos MORI. This provides the statistically robust information we use to make improvements. In this year's survey, 73 per cent of our employees say they are proud to work for Anglian Water and 76 per cent say they would speak highly to others of Anglian Water as an employer.

Our Employee Engagement Index uses key questions in the annual survey to give us an indicator of staff satisfaction. This year the Index continued its upward trend, rising by five points to 74 per cent, and exceeding our 2010 target a full year early.

Recognising excellence

We celebrate and recognise the quality and dedication of our employees in our annual Business Excellence Awards. Employees nominate individual and team colleagues for awards, which

include Employee and Team of the Year, as well as recognise employees who've made improvements to products and processes and made outstanding contributions to corporate responsibility and health and safety.

Last year 153 employee finalists competed for awards across 14 categories. Our suppliers also took part and other guests included representatives from Ofwat, DWI, the Environment Agency, Natural England and the CBI.

Business Excellence Award Winners

The Employee Engagement Index helps us measure staff satisfaction. This year the Index continued its upward trend, and we have already exceeded our 2010 target.

Employee Engagement Index

	2008/09	Trend
2009 Overall Engagement Index Score	74	+5
I believe Anglian Water is genuinely interested in employee well-being	64	+8
I feel that Anglian Water provides good value for money for its services	65	+7
Job satisfaction	69	+7
I think Anglian Water acts consistently with what the company wants to be	76	+7
Overall I understand how my work contributes to the team's aims	89	=
I have a responsibility (either directly or indirectly) in delivering outstanding customer service	87	+3
I feel I play a part in the company's success	71	+4

Major capital investment projects 2008/09

Sunset over wildlife lagoon, Rutland Water.

Rutland Water

To meet the predicted growth in demand for water in the region, we have initiated a £115.0 million project to abstract and treat more water from our largest reservoir at Rutland.

The project involved creating a new pumping station at Empingham, a 90Ml/day treatment works at Wing, and upgrades to other parts of the existing supply system. It also involved laying 42 kilometres of water main underground along a route from Rutland Water to Corby, Kettering and beyond, carefully routing the pipeline around several sites protected for their importance both to wildlife and to our archaeological heritage. Following careful planning and extensive ecological mitigation and archaeological investigation, 39 kilometres of main have so far been completed.

Rutland Water is a UK Site of Special Scientific Interest and enjoys international protection as a conservation site. Our priority has been to minimise the impact of the capital works on the wildlife of the reservoir, which is home to ospreys and internationally important numbers of shoveler ducks.

To protect wildlife from the effects of increased water abstraction, we created lagoons with independent water levels to the west of the reservoir. This habitat protection project was officially launched by Sir David Attenborough in April 2008 (below centre) and the first major lagoon was completed in December.

Great Yarmouth

Since the severe storms in 2006, when six months' rain fell in just a few hours, we have invested more than £8.0 million upgrading vulnerable parts of the wastewater system in Great Yarmouth, reducing the risk of flooding.

We relined more than five kilometres of sewers using a modern no-dig technique to minimise disruption to the town, mindful too that tourism is vital to the local economy. A pumping station in Garrison Road was also upgraded and given increased protection against severe rainfall.

We completed a major £4.7 million wastewater scheme for the Northgate Street area of Yarmouth in spring 2009, installing a new pumping station and an underground storage tank capable of holding up to 850 cubic metres of water.

A new, large-diameter sewer was tunnelled beneath Northgate Street, adding an additional three-quarters of a kilometre of capacity to the wastewater system in what is the lowest point of the town, where rainfall naturally accumulates. This work was successfully completed over winter, outside the main holiday season.

Careful liaison with the local MP, Great Yarmouth Borough Council and the Highways Authority helped to make this scheme a success.

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

Capital investment

One of our strengths in this Asset Management Plan period has been the consistent way in which we have delivered our annual capital investment targets.

We have achieved efficiencies in the 2005/10 AMP4 capital programme and these have largely been re-invested in additional capital projects. Total capital expenditure during the first four years of the programme was 1.5 per cent above the assumed spend in Ofwat's Final Determination (based on 2008/09 prices).

We have reduced the number of customers at risk of wastewater flooding and have introduced wastewater services to a potential 1,456 properties at 12 locations.

We completed a further eight nitrate removal schemes in 2008/09 and are also making excellent progress on one of our most strategically important projects, the construction of the Wing Water Treatment Works extension in Rutland (see page 21).

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.

The serviceability of our water assets has historically been 'stable', and we anticipate that Ofwat will again confirm our water assets continuing as 'stable' for the period 2008/09 when it issues its assessment in the summer of 2009.

Focus on restoring serviceability for both above and below ground wastewater assets has been a priority during AMP4 with significant investment in our sewer replacement programme and enhanced focus on sewage treatment works compliance.

In 2007/08 we delivered our best results to date on compliance, when our wastewater assets met the standards required of us by Ofwat. This returned our non-infrastructure assessment to 'stable'. We maintained this good level of compliance in 2008/09 and anticipate another 'stable' assessment.

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 anticipate that we will also maintain 'stable' serviceability in the wastewater infrastructure serviceability assessment for the year.

Operational performance

Water resources and demand management

We measure every aspect of our operational performance to provide customers with a high-quality and reliable service.

Drinking water quality

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

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

During AMP4, we are investing almost £100.0 million in further improving drinking water quality to ensure we continue to meet the highest standards.

By the end of the year we had delivered over 80 per cent of our AMP4 Drinking Water Quality programme, including a total of 19 new nitrate removal schemes. We completed eight of these in 2008/09, and the remaining schemes are due to enter supply by the end of March 2010.

We are also making excellent progress with our £100.0 million Drinking Water Quality investment programme for 2005/15.

99.98%

2008/09 results

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

In 2008/09 we worked to improve customer awareness of the need for cleanliness of their own taps and internal plumbing, which contributed significantly to a 30 per cent reduction in the numbers of exceedances – when we detect substances in water outside the permitted limits – for 2007/08.

In June 2008 we faced a considerable challenge when we detected *Cryptosporidia* in routine water quality samples taken from the Pitsford Water Treatment Works in Northamptonshire. We took the precautionary approach of advising customers in around 108,000 homes to boil their tap water.

More than 300 Anglian Water employees and contractors worked around the clock during this period and within 10 days restored drinking water supplies to their usual extremely high standard. We kept customers fully informed both directly and through the local media in a high-profile communications campaign and also worked very closely with the Drinking Water Inspectorate, health protection agencies and community organisations.

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

2008

The Pitsford incident was independently investigated and the DWI made a number of recommendations, all of which we have acted upon. The DWI commended Anglian Water for our prompt response to the problem and for our actions to protect public health as part of a multi-agency team. The total cost of the incident, including the installation of ultra-violet water treatment at the works, and goodwill payments to customers was £4.9 million, none of which has been borne by our customers.

Keeping customers informed

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

To help our customers we will fix leaks on pipes on their property on a one-off basis as part of our *Watertight* promise. See www.anglianwater.co.uk for more information.

600mm

Our region is the driest in the country, with only two-thirds of the annual rainfall of England and Wales.

Water resources

Our region receives only two-thirds of the 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. We manage the demand for water by a combination of leakage control, metering and the promotion of water efficiency to our customers.

Annual rainfall for our region for 2008 was recorded as 708 millimetres (mm). The long-term annual average is 600mm. As a result of this groundwater and surface water resources remained secure. Significant rainfall in the period August to November 2008 resulted in early recharge to the major aquifers and allowed us to refill reservoirs.

Despite the relatively plentiful water resources this year, we are developing water resource plans for the period 2010 to 2035 to meet all challenges associated with climate change, environmental pressures and population growth. The plans are based on striking an appropriate

balance of demand management options such as leakage control, metering and supply schemes. The plans will also consider options to maintain the balance between supply and demand from industrial customers on the South Humber Bank.

We have begun investing an additional £50.0 million beyond the 2005/10 investment period in schemes to improve the security of supply to customers across our region. Of this, £40.0 million is in recognition of the higher than anticipated revenues that were generated as a result of the hot, dry summer weather in 2005 and 2006. In addition, we are investing £10.0 million generated from efficiencies.

The extension of the treatment works at Rutland Water, a strategically important water resource project, is on target for completion in 2009/10. This £115.0 million investment project will allow us to abstract and treat up to 90 million more litres of water per day. (See page 21 for more details.)

Amount of water we supply and the number of properties connected

Ensuring a reliable supply

We currently supply the same amount of water to the region as we did at the time of privatisation in 1989 – around 1.2 billion litres every day.

We see this as a measure of successful demand management, further emphasised by the fact that during this 20-year period the number of households we supply has grown by nearly a quarter, as the chart (see below left) demonstrates.

We have a three-point approach to demand management. We focus on:

- Minimising the amount of water lost through leakage.
- Promoting voluntary metering.
- Supporting enhanced water efficiency in our business and for our customers.

Minimising the loss of water

In an area of low rainfall, minimising the loss of water from leaks in our network and our customers' private pipes is essential. Our highly skilled leakage control teams utilise the latest technology, enabling us to consistently achieve one of the best records for leakage control in the industry.

We ensure our infrastructure continues to be 'stable' and our response and repair services remain excellent. As almost one-third of the total water lost is due to leaks from customers' private pipes, we work with our customers to minimise overall leakage. We undertake to fix leaks in customers' pipes on a one-off basis as part of our *Watertight* promise (see www.anglianwater.co.uk for more information).

In 2007/08, our total water loss figure was 5.6 cubic metres of water per kilometre of main per day (m³/km/day), almost half the industry average of 10.1m³/km/day. In 2008/09, we maintained this excellent performance despite the severe winter weather across the country between December 2008 and February 2009, and which led, in our region, to the highest number of burst mains since 2003/04. We responded well to the increase in bursts, quickly deploying our leak detection and repair resources to the worst-affected areas as directed by our leakage monitoring system.

We will continue to focus on minimising water loss in the future to meet our strategic aims of:

- Maximising security of supply of water to our customers.
- Minimising the effects of growth and climate change on our ability to meet our customers' needs.

£100 a year

Customers with meters save an average of £100 a year and use 10 per cent less water.

Leakage survey in progress

Metering

We actively encourage customers to use meters. This helps save water and many customers also save money. Each metered customer saves, on average, £100.0 a year and reduces their water consumption by approximately 10 per cent.

At 64 per cent, Anglian Water has one of the highest proportions of metered customers of any major water company in England and Wales, and we are challenging ourselves to do even better, with a target of 80 per cent of domestic customers by 2014/15. The Environment Agency is encouraging water companies to adopt universal metering, and our designation as an area of 'serious water stress' potentially gives us additional powers to make metering compulsory. However, we prefer to encourage customers to switch to metering voluntarily. Our focus is on demonstrating the clear benefits for savings and reduced consumption.

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

In Ipswich, Suffolk, we have completed a unique metering project by taking the initiative to install over 26,000 water meters. This approach has enabled us to show customers how much having a metered supply could save them. Customers could then choose to switch permanently to a metered supply.

Some 17 per cent agreed to this offer, which is high compared to past trends. We expect this number to rise once a full bill cycle has been completed and customers are able to see the actual savings. We will continue to offer support and encouragement to customers to increase the numbers choosing to have meters installed.

The extent of bad debt in the water industry is currently estimated at around £150 million. Bad debt in our region adds an average £11 to every water bill. During the year we actively lobbied for the introduction of the trickle flow devices to be used as a last resort for companies faced with customers who deliberately refuse to pay their bills.

Trickle flow devices ensure that a basic water supply is maintained, but prevent customers who choose not to pay accessing unlimited supplies of water. We continue to make our case at a national level with politicians and consumer organisations.

Wastewater

We receive and treat around 960 million litres of wastewater every day through our network of sewers.

It is our responsibility to ensure that any non-biodegradable material is removed before the water and organic waste matter are separated.

Before the water is returned to the environment, it is filtered and treated to meet stringent standards.

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 providing the organic matter for material used in the reclamation of industrial sites.

17

There are 17 Blue Flag beaches in our region, up two from 2008.

Bathing water quality

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

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

In 2009 there are 17 designated Blue Flag beaches in our region, compared to 15 in 2008. For a bathing water beach to achieve Blue Flag status it must achieve guideline water quality standard, as well as pass 27 other tests.

River water quality

We work to protect and sustain the region's waterways, which are an important but delicate ecosystem.

The Environment Agency tests the water quality of the rivers in our region and publishes the results every year.

In its latest report, published in August 2008 for the 2007 calendar year, the Agency classed the biological quality of 99.8 per cent of rivers in our region as 'very good' to 'fair' (2006: 99.8 per cent).

In 92.1 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2006: 92.3 per cent).

Since 2006, the Environment Agency has reduced the total length of rivers surveyed, revising the 2006 data accordingly. The totals quoted here therefore cannot be compared to those in our previous reports.

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

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

RiverCare teams in Lincolnshire

Our *Community and Environment* report is on our website at www.anglianwater.co.uk

Chief Executive's statement
Our business environment
Delivering service
Building relationships
Managing risk

Using our resources efficiently

We treat biosolids to the highest standards.

Drier, Tilbury Wastewater Treatment Works, Essex

Biosolids

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

We treat and recycle biosolids to the highest standards. All processes are externally certified and controlled using quality systems accepted in the food industry. Our most technologically advanced treatment plant in Tilbury, Essex, was successfully commissioned during the year.

Dealing with the volume of biosolids produced on a daily basis is a challenge for all water companies, which dispose of, or recycle it in different ways. Some companies incinerate waste, but at Anglian Water the vast majority of biosolids are treated and used by farmers as a soil conditioner. Although not technically a fertiliser, biosolids (sold under the brand name *Nutri-bio*) are an increasingly highly valued product that can reduce the need for artificial fertilisers and improve the soil's ability to retain moisture.

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 we anticipate these becoming the norm in future.

There was a noticeable increase in demand for biosolids during the first half of the year in response to the rapid increase in the price of fertiliser, principally due to the United States' switch to biofuel crops in response to high oil prices.

Although prices have now fallen and availability is not currently an issue, *Nutri-bio* is in demand from farmers across our region.

Energy management

Energy accounts for 17 per cent of our total operating costs. Our Energy Initiative completed its third year in 2008/09, and is delivering substantial savings in energy use and costs. We've already met our target, to save £10.0 million by 2010.

In 2008/09 we saved £2.4 million in energy costs and, for the second year running, used less energy overall – 731 gigawatt hours (GWh) (734 GWh in 2007/08). We completed 212 energy projects, which ranged from replacing existing equipment with energy-efficient versions to investing to improve control of our processes. These projects will save 10 GWh of electricity annually.

Renewable power generation increased from 13 GWh last year to 23 GWh this year. Delays in commissioning some of our new Combined Heat and Power (CHP) engines meant we missed our target of 40 GWh of renewable power.

Some Anglian Water sites are now self-sufficient in power. King's Lynn CHP engines generate enough energy to power the whole site and export some renewable power too.

The two new CHP engines we commissioned this year bring our total to 10. We intend to commission another four engines during 2009/10.

Ensuring we only pay for the energy we use is a priority and we are installing smart meters at sites where we currently receive estimated bills. We plan to install around 440 of these meters and have completed installation of more than 250 so far.

We purchase 'green' energy from renewable sources, which now represents 22.6 per cent of our total electricity use.

The energy management team has continued to promote the energy-efficiency message to employees through our Think Energy campaign.

One megawatt hour of power is generated for each tonne of dry solids treated at our Combined Heat and Power plant at King's Lynn, Norfolk.

22%

More than 22 per cent of our energy comes from renewable sources

Chief Executive's statement
 Our business environment
 Delivering service
Building relationships
 Managing risk

Building relationships

We work hard to build and maintain productive relationships with a wide range of people and organisations at local, regional and national level. These include MEPs, MPs, councillors, Government departments, local and regional authorities, community leaders, regulatory bodies and groups representing a wide range of interests from consumer protection to biodiversity; schoolchildren to the elderly.

Economy and society

We play a major role supporting economic development and housing growth in our region.

The population of our region is growing rapidly; although growth slowed in the year, we expect to be serving up to one million more homes in 25 years' time. Providing robust water and wastewater infrastructure strategies in support of the Government's targets for sustainable growth in the region is a key priority for us.

We are actively involved in developing planning policy at regional and national level. The integration of water and planning processes is an important means of delivering sustainable growth. We have built strong relationships with the Government Offices; the Environment Agency; regional planning bodies and development agencies and local authorities across the region. Our water-cycle studies feed into the Local Development Frameworks, which form

the basis for planning decisions at regional and district council level.

We listen to the views of others through quarterly opinion surveys of our stakeholders and work closely with local councillors and MPs of all parties. Elected representatives and community leaders across our region keep us informed about local and regional issues and we are grateful for this positive working relationship.

In 2007/08 we established five expert opinion panels under independent chairs to help us plan our investment strategy for the next regulatory cycle 2010/15. Our work with these panels has continued this year. Their comments and feedback influenced the development of our *Final Business Plan*.

During 2008/09 we provided information and evidence in many national reviews and consultations, including the draft Floods and Water Management Bill; the Defra Review of Private Sewers; the Environment Agency Consultation on EU Water Framework Directive; the Communities and Local Government Review of (Part

G of the) Building Regulations. For more on our contribution to the Cave Review of competition and the Walker Pricing Review, see page 12.

During the year we have worked on responses to the challenges of climate change at regional, national and international level. We played a leading role through The Prince of Wales's Corporate Leaders Group on Climate Change in the development of the Poznan Communiqué (November, 2008).

2008/09

During 2008/09 we provided information and evidence in many national reviews and consultations, including the draft Floods and Water Management Bill.

Our educational programme won a Business in the Community Big Tick, Education Award for Excellence, 2009.

Working with schoolchildren

Anglian Water launched a new education programme in 2007. Three very successful education centres are based at our wastewater treatment works in Chelmsford, Essex; Leighton Buzzard, Bedfordshire; and Corby, Northamptonshire, with a well-established environmental education centre at Rutland Water. Our mobile education centre travels the region, including Hartlepool.

Linked to the National Curriculum, our educational sessions are designed to encourage responsible attitudes to water, waste disposal, the health benefits of drinking water, and the environment. All sessions and school visits are run by qualified teachers and trainers, and are extremely popular with local schools and community organisations.

We have exceeded our targets for the year, with more than 35,000 pupils taking part in education sessions, 18,000 of whom visited one of our centres, in addition to the 7,200 adults who also attended sessions.

Teachers rate us highly, with 100 per cent rating the sessions as either 'very good' or 'excellent'.

Photo: Captain Splosh makes learning about water fun throughout the region.

For more information about our wide range of educational materials, visit www.captainsplosh.co.uk

Chief Executive's statement
 Our business environment
 Delivering service
Building relationships
 Managing risk

Music in the Pipeline in the classroom

Music in the Pipeline

During 2008, Music in the Pipeline featured in a series of innovative education workshops for schools to encourage pupils to make their own musical instruments and understand how to use water wisely.

Our educational programme gained the Business in the Community Big Tick in the Education Awards for Excellence 2009 and was short-listed as a national example of excellence. The Big Tick is given to companies able to demonstrate the positive impact of their responsible business practices.

Relationships with domestic customers

The reliability of the service we provide means that the majority of our customers rarely need to give a second thought to the processes and infrastructure behind water and wastewater services. Exceptions are when there is an interruption to supply or a quality-related issue. Awareness also increases during particularly dry or wet years.

We are working to build understanding and productive relationships with our customers. We do this both directly by seeking feedback in a number of ways and indirectly via the Consumer Council for Water, the customers' representative body.

Understanding our customers

Our customer opinion survey for 2008/09 scored an average of 4.5 out of five for the year, in line with the industry average. This score is slightly

lower than last year's 4.6 and is the result of a poorer than average first quarter when customers experienced difficulties getting in touch with our contact centre.

We worked throughout the year to improve customer experience, raising satisfaction levels from the first quarter low of 4.25 to 4.6 in the final quarter of 2008/09.

We continue to survey around 500 customers each week to measure satisfaction levels and to improve customer service. Customers' overall impression of the work we carry out has improved 9.4 per cent from a score of 2.86 of a maximum four to a score of 3.1. Customers' perception of the quality of our work has also improved 11.9 per cent, from 2.68 to three out of the maximum four.

Relationships with business customers

We work hard to make a positive contribution to the economic health of our region by offering support and advice to our business customers, from corner shops to industry leaders, from breweries to pharmaceuticals. Our teams of Industrial Process Engineers and Water Efficiency Assessors help improve water use efficiency and so help to lower water and wastewater bills. This allows us to run our infrastructure efficiently.

This year our work has included planning with new and existing customers, local development agencies, and regulatory bodies for the significant industrial growth

forecast for the South Humber Bank region from the emerging bioenergy and biofuels sector.

Due to the uncertainty around the timing of this demand we have taken a cautious and phased approach to growth in this region, identifying a number of schemes that can be implemented over time to increase the availability of supplies as demand certainty increases. Discussions with Ofwat on our approach to growth in this area have enabled us to reassure business customers on future availability of supply.

Relationships with suppliers

This year we continued the Supplier Relationship Management Programme, following its successful launch in 2006/07. The programme is aimed at ensuring our relationships with suppliers are mutually beneficial, and includes initiatives to improve collaboration and avoid waste.

Reducing CO₂ emissions

We continue to work with our supply chain partners to reduce our collective carbon footprint. Building on the success of last year's awareness-raising events in our Supply Chain Challenge, we set our own pledge to encourage and support our top 50 suppliers to calculate their carbon footprint and then work on reducing it in future. As a direct result, we have increased the number of our major suppliers who measure carbon emissions from seven companies in 2007 to 36 in early 2009.

Relationships with regulators and key stakeholders

We work hard to improve our relationships with our regulators and our understanding of regulatory activities, to minimise the risk of communication breakdown and threats to our operating licence.

Our Working Together initiative with the Environment Agency is delivering excellent results. It 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 to discuss pollution control and improved reporting procedures, and coordinate the activities of our joint RiverCare project teams.

The five-way working group

As part of our work for Price Review 2009 (PR09), we have continued to meet with a five-way working group, established in 2007. The group is chaired by Jean Spencer, our Director of Regulation, and also includes representatives from the Consumer Council for Water, the Drinking Water Inspectorate, the Environment Agency and Natural England.

An effective forum for sharing information on each organisation's approach to the PR09 price review process and for exploring regional issues, the group meets regularly to promote greater understanding of each member's priorities and to raise and resolve issues of concern.

Regional Expert Opinion Panels

In addition, we have also continued to meet five Regional Expert Opinion Panels. The panels bring together individuals and representatives from a diverse range of organisations with an interest in Anglian Water and the Price Review. Participants include associations, businesses, quality regulators and environmental and regional interest groups.

The panels have allowed in-depth discussion of the issues and challenges affecting the delivery of water and wastewater services in our region to complement the work we have done on canvassing directly the views of our customers. The panels also proved invaluable in helping us to shape our long-term strategy and plans for 2010/15.

Water partnership

In partnership with the Government Office of the East of England and the Environment Agency we are encouraging an integrated approach to planning for growth in the East of England. This partnership, which is chaired by the Minister for the Eastern Region, Barbara Follett MP, will:

- Support the development of the evidence base for the review of the East of England Regional Strategy.
- Manage a programme of water-cycle strategies and help integrate them into the local planning guidance.
- Provide data required to secure funding for critical water infrastructure.

Chief Executive's statement
Our business environment
Delivering service
Building relationships
Managing risk

Read our *Strategic Direction Statement* and our *Final Business Plan* for 2010/15 at www.anglianwater.co.uk

Managing risk

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

Our key, long-term challenges from 2010 to 2035, outlined here, are covered in detail in our *Strategic Direction Statement (SDS)*. Other issues are also discussed in our *Community and Environment* report. Both publications are available online and in hard copy. More information is available on our website at www.anglianwater.co.uk

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

The following pages outline the principal risks and challenges we face, together with our strategic response. For more detail, see our *Strategic Direction Statement*, available on our website at www.anglianwater.co.uk

Climate change

The issue

Climate change is one of the biggest challenges we face. Predictions suggest hotter, drier summers which may result in reductions in reservoir levels. This will also reduce levels in the rivers we rely upon to help maintain reservoir levels.

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

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

Our low-lying region is particularly vulnerable to rises in sea level. A number of our assets are also vulnerable and must be protected or moved. We are also responsible for adapting to the impact of climate change on the many ecologically sensitive areas we own and manage.

Our response

We have undertaken extensive work to understand the risks, identifying our critical infrastructure, working to prioritise our most vulnerable and strategically important coastal assets and to assess the investment required to protect or move them in future Asset Management Plans.

Looking ahead, we are investing an additional £50 million beyond the 2005/10 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 rise in population in our region is one of our most significant long-term risks. Although current economic conditions have slowed the rate of house building in the short term, it is anticipated that the planned developments will be restarted once financial conditions in the UK improve. Although the total number of new connections showed a fall from 24,000 last year to 18,000 this year, this has not altered the underlying 25-year growth forecasts. Indeed, current regional plans are being reviewed to account for higher development targets over the medium and long term.

Our response

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

Our *Final Business Plan for 2010/15* includes options for increasing water resources, transferring water between rivers within our region and also reinforcement of our wastewater assets to cater for new development without compromising environmental water quality. In addition, we champion the use of sustainable drainage techniques in place of piped systems as a more environmentally sound way of managing surface water in the context of a changing climate.

Chief Executive's statement
 Our business environment
 Delivering service
 Building relationships
 Managing risk

Hardship and bad debt

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

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

Recovering bad debt

The number of customers who choose not to pay puts a considerable cost burden on those who do pay their water charges. We continue to seek legal redress against those who are able to pay but choose not to.

Our new debt management system was introduced in January 2009, allowing us to use the range of debt recovery procedures available to us more effectively.

Alternatives

We are actively seeking to introduce trickle flow devices.

Trickle flow devices will help deter those who can pay but choose not to. We continue to work to encourage our customers to contact us at an early stage if they experience genuine difficulty in paying their water bills.

Competition

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

The Cave Review recommends a number of changes to the inset appointment regime and to the competition threshold. We will consider these recommendations and work with relevant stakeholders to develop these further. In the meantime, we will focus on improving our business processes and our levels of service to domestic and commercial customers. (See page 12.)

Anticipated changes to our statutory obligations

Anticipated changes to two aspects of our statutory obligations for wastewater could have an impact on our proposals outlined in our *Final Business Plan*.

In December 2008, Defra announced the transfer of private sewers and lateral drains to water and wastewater companies in England from 2011. Our *Final Business Plan* recognises that there is great uncertainty about the scale and condition of these assets and therefore the implications of the transfer. To resolve some of this uncertainty, we have participated in national research projects and commissioned our own investigations.

The European Commission has identified the Humber, Wash, Colne and Deben and Thames estuaries as sensitive or at risk from excessive runoff of nutrients in the future. Legal proceedings against the UK Government in relation to this issue could require us to provide a substantially greater degree of wastewater treatment in some of our catchments.

Our *Final Business Plan* assumes that any additional obligations will be treated as a Relevant Change of Circumstance, which may result in an interim review of price limits.

Energy management

The issue

We are one of the largest users of electricity in the east of England, due to the power required to treat water and wastewater and pump it around such a geographically flat region. Energy represents around 17 per cent of our total operating costs. The recent volatility and significant price increases in the wholesale power markets will continue to make a significant impact on our cost base in 2009/10.

Our response

Our energy efficiency programme is now in its fourth year and continues to drive reductions in power consumption, with the aim of reducing energy costs by 20 per cent by 2010 (from the 2006/07 baseline). This initiative has saved £10.0 million to date, one year ahead of target, and plans to save an additional £1.4 million in 2009/10.

We are increasing the amount of renewable power generated through Combined Heat and Power (CHP) processes.

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.

Economic conditions

The issue

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

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

The recession has also had an impact on our commercial customers, as they have begun to cut back on production. This will inevitably lead to reduced

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 as people are living longer.

The impact of the current global recession on the financial markets has significantly affected all pension schemes this year, with equity markets falling considerably, and interest rates at unprecedentedly low levels. The assets of the scheme are invested in both equity instruments and debt instruments.

Our response

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

revenues in the short term.

Our response

We will continue to work with our 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. We will also continue to work with our commercial customers to assist them wherever possible and practicable.

Further details on the management of financial risk are provided in note 16 of the financial statement on page 69.

Financial Review

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 2009 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 95).

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 88 to 111.

Financial results

The consolidated profit and loss account as presented on page 48 is summarised in the table below:

	2009 Excluding transactions with AWS Holding companies	2009 Transactions with AWS Holding companies	2009 Total	2008 Total
	£m	£m	£m	£m
Turnover	1,037.4		1,037.4	969.2
Operating costs	(363.5)	–	(363.5)	(331.2)
Depreciation	(228.3)	–	(228.3)	(217.0)
Operating profit	445.6	–	445.6	421.0
Net interest payable and other finance charges	(308.9)	193.6	(115.3)	(89.1)
Profit before tax	136.7	193.6	330.3	331.9
Taxation	(13.0)	–	(13.0)	(20.2)
Profit after tax	123.7	193.6	317.3	311.7
Dividends ¹	(100.0)	(193.6)	(293.6)	(290.6)
Retained profit	23.7	–	23.7	21.1

¹ Dividends paid to shareholders for the year ended 31 March 2009 were £100.0 million (2008: £97.0 million). The remaining £193.6 million (2008: £193.6 million) is an intra-group dividend paid and committed by the group but retained within the Anglian Water Services Financing (AWSF) group.

In order to show the position of the Anglian Water Services Financing (AWSF) group, the table (left) shows the profit and loss account excluding interest receivable by the group from Anglian Water Services Holdings Ltd and the internal dividend paid by the group and retained within the Anglian Water Services Financing (AWSF) group of £193.6 million (2008: £193.6 million).

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

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

In addition there were one-off costs of £4.9 million relating to the Pitsford water quality incident in the summer of 2008, which is £0.6 million less than estimated in our half-year accounts. The bad debt charge in the year was consistent with the charge in the prior year. Overall, operating expenditure as a percentage of turnover increased slightly from 34.2 per cent to 35.0 per cent.

As a result of the continuing capital programme depreciation was up 5.2 per cent from £217.0 million last year to £228.3 million.

Net interest payable and other finance charges (excluding interest receivable on an inter-company loan) increased by 9.3 per cent from £282.7 million in 2007/08 to £308.9 million in 2008/09. This is due primarily to the effect of lower interest rates on income from deposits, the requirement to raise new debt to finance the ongoing capital programme and an increased pension charge, partly offset by the impact of lower RPI in the second half of the year on index-linked debt.

Taxation

Taxation costs decreased from £20.2 million in 2008 to £13.0 million in 2009. The charge for the year is less than the statutory rate of 28 per cent (2008: 30 per cent) due to the agreement of a number of prior-year issues and the effect of discounting the deferred tax charge. The combined effect of these two items is a £25.5 million tax credit against the charge for the year, giving a relatively low effective tax rate of 9.5 per cent, excluding transactions with Anglian Water Services Holdings Ltd.

Capital expenditure

Gross capital expenditure for the year was £434.5 million, £158.1 million of which was delivered by an alliance of six partner companies working in close cooperation with Anglian Water. The total capital investment in the first four years of the current Asset Management Plan period (2005/10) was approximately £1,649 million (at 2008/09 prices), compared with £1,624 million in the Final Determination.

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

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

Cash injection

Shortly before the year-end, the Osprey consortium demonstrated its continued commitment to the company when it provided £115.0 million of additional funding to Anglian Water Group Ltd, of which £90.0 million was lent to Anglian Water Services via Osprey Holdco Ltd. The funds are being provided to maintain and improve headroom in near-term debt covenants following the rapid fall in, and unpredictable outlook for, RPI.

The loan to Anglian Water Services is subordinated to Class A and Class B debt with payment of interest and repayment being subject to the restricted payments condition.

Efficiency challenge

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

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

The company carried out a restructuring programme in the 2004/05 financial year, saving approximately £10 million per annum in operating costs, beginning in the financial year 2005/06. We have continued to make efficiency savings

from a range of initiatives and in 2008/09 these amounted to approximately £13 million.

Financial needs and resources

At 31 March 2009 the group had net borrowings of £4,287.4 million, an increase of £163.2 million over the prior year. Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,200.7 million and cash and deposits of £913.3 million. The increased net borrowings comprise a net increase of £384.2 million in loans and associated costs and a net increase of £221.0 million in cash and deposits.

The business generated a net cash inflow from operating activities of £630.5 million in 2008/09 (2007/08: £595.7 million). The group, through its financing subsidiary AWSF, raised £444.1 million (before debt issue costs) in 2008/09, of which £419.0 million was at fixed rates and the balance of £25.1 million at floating rate. This is used largely to finance the capital programme and repay existing debt.

Distributions

Dividends paid to shareholders for the year ended 31 March 2009 were £100.0 million (2008: £97.0 million), which equates to 11.63 pence per share (2008: 11.28 pence per share).

An intra-group dividend of £193.6 million (2008: £193.6 million) was paid and committed 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. This dividend is retained within the Anglian Water Services Financing (AWSF) group.

In total, dividends of £293.6 million (2008: £290.6 million) have been paid and committed at 34.14 pence per share (2008: 33.79 pence per share).

The Directors have proposed a final distribution for the year ended 31 March 2009 of 15.12 pence per share, which is a total of £130.0 million. This distribution has not been accounted for within the 2008/09 financial statements as it was approved after the year-end. This has been retained in a distribution account within Anglian Water Services. The mechanism for making the ultimate distribution (either a dividend or early repayment of an intra-group loan) and the precise quantum will be decided later in the year depending on the outlook for RPI at that time.

The dividend policy is to pay normal dividends from free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and in practice will be limited to a net debt to regulatory capital value gearing ratio of 83 per cent in the medium to long term. 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 2009 the company held cash, deposits and current asset investments of £913.3 million (2008: £692.3 million) and had undrawn committed facilities of £225.0 million (2008: £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 66 to 72 of the accounts. New debt totalling £444.1 million was raised during the year through Medium Term Notes of the Global Secured Medium Term Note Programme, excluding the £90.0 million Anglian Water Group loan referred to below.

In addition, the company has access to £340.0 million of liquidity facilities (2008: £330.0 million), consisting of £264.0 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.

In anticipation of the potential impact of deflation on the company's regulatory capital value (RCV), the shareholders of Anglian Water Group agreed to inject £90.0 million into Anglian Water. The funds were raised by way of an equity injection at the parent company level and then loaned to Anglian Water under the terms of a subordinated loan agreement. The loan is repayable by 2013 but may be repaid earlier depending on the actual RPI at that time.

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 a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year-end, taking into account interest rate swaps, 49.5 per cent (2008: 51.9 per cent) of the company's borrowings were at rates indexed to RPI, 44.2 per cent (2008: 38.7 per cent) were at fixed rates and 6.3 per cent (2008: 9.4 per cent) were at floating rates.

Pension funding

The pension scheme net valuation has declined this year, with the FRS 17 liability (net of deferred tax) at 31 March 2009 standing at £71.1 million for all schemes, compared to a liability of £62.5 million at 31 March 2008. This is due to deterioration in market conditions since the previous year-end affecting the scheme assets, partly offset by the effect of reduced long-term inflation on the scheme liabilities.

Regulatory accounts

The regulatory accounts are set out on pages 88 to 111. 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 2008/09, the Final Determination (FD) assumed turnover of £971.0 million (expressed at 2008/09 prices). Anglian Water Services' appointed business turnover for the year was £1,024.7 million, which includes £4.5 million of turnover relating to 2007/08 as a result of actual bills raised exceeding the amount accrued in 2007/08. The outperformance of £49.2 million is attributable to higher domestic usage and billing of properties previously classified as vacant when compared to the Final Determination and additionally, higher demand from business customers.

Atypical costs

Operating costs for the appointed business were £358.7 million (2008: £328.5 million), excluding depreciation. This includes atypical costs (as defined by Ofwat) of £2.6 million, which comprises primarily one-off costs and provision releases.

Current cost depreciation

The current cost depreciation charge – as disclosed in the regulatory accounts – was £250.1 million (2008: £253.8 million).

Board of Directors

Executive Directors

1. Jonson Cox

Chief Executive (and Chairman of AWS)
Jonson Cox was appointed Group Chief Executive of Anglian Water Group in January 2004. A main board Director of Kelda Group Plc from 1994 to 2000, he led Kelda's commercial business from 1992 to 1996 and was Managing Director of Yorkshire Water, the principal business of Kelda Plc, from 1996 to 2000.

Jonson was Chief Operating Officer of Railtrack Plc from October 2000 to 2001. He was Chief Executive of business service provider Valpak Limited from 2002 to 2003. 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's 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.

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 Anglian Water Group, 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. Scott Longhurst

Group Finance Director

Scott Longhurst was appointed Group Finance Director of Anglian Water Group 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 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 and a member of the Confederation of British Industry's Economic Affairs Committee.

5. 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.

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 Homes and Communities Agency and Chairman of the Met Office, having recently retired after eight years as Chief Executive of WWF-UK. Robert is Chairman of Governors of Sedbergh School and Chairman of the Trustees of the Carbon Disclosure Project. He is also Chairman of the Trustees of the World Conservation Monitoring Centre 2000 based in Cambridge.

7. John Watkinson

John Watkinson was appointed in May 2005. He has more than 20 years' experience in a variety of senior executive roles within the retail sector – encompassing buying, supply chain and operations. For most of the 1990s, he held successive Operations Director roles for both Habitat and Wallis. In 1999, he joined Hamleys plc and later led a successful management buyout of the company and became the Chief Executive of the newly formed Hamleys Group. Between 2005 and 2008, John was Chief Executive of Monsta Group Limited, a retail investment company, which included the Jones Bootmaker footwear business. Last year, John set up Retail InsideOut, a specialist business practice, to advise retailers and retail suppliers on business growth, recovery, operational improvement and organisational design. He is also a Non-Executive Director of Buying Solutions – the UK's largest procurement organisation currently supplying the public sector.

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 and Joint Deputy Chairman of Transport for London and a Non-Executive Director of Aggregate Industries Ltd. He is also 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 2009.

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, 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 9. The information that fulfils the requirement of the Business Review, including a summary of the group's performance; future prospects; key performance indicators and principal risks and uncertainties, is included in the Business Review and Financial Review.

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 40 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 4.3 million customers every day. The water comes from a variety of sources: reservoirs, underground reserves

(aquifers) and abstraction from rivers. The company receives approximately 954 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 soil conditioner.

Results and dividends

The profit and loss account on page 48 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 60 and 61.

Health and safety

Details are included on pages 18–19.

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 the Directors served throughout the year.

Charitable and political donations

During the year the company made a payment of £0.75 million (2008: £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 scheme, *give me five*, has given more than 17,200 hours (2008: 16,500 hours) of employee time, for the year ended 31 March 2009, supporting local community activities. The scheme offers employees the opportunity to take up to 30 hours of matched work time to support their local communities in such activities as working with schools, being a special constable and working with the Scout and Guiding movements. The company's proviso is that participation also contributes to personal development objectives.

During the year, Anglian Water donated £40,000 (2008: £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 £162,000 (2008: £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, homeworking, sabbaticals and career breaks.

The Group operates the AWG Loyalty Savings Scheme, which is now in its third year and enables 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 2009 was 43 days (2008: 35 days).

Directors' disclosures to auditors

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

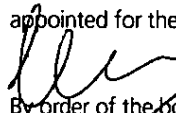
a) So far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware;

and

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

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and in the absence of a notice proposing that the appointment be terminated, the auditors will be deemed to be re-appointed for the next financial year.


By order of the board.

Claire Russell
Joint Company Secretary
27 May 2009

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 2009 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		2009 £m	2008 £m
2	Turnover	1,037.4	969.2
	Operating costs:		
	– Operating costs before depreciation	(363.5)	(331.2)
	– Depreciation net of amortisation of grants and contributions	(228.3)	(217.0)
3	Total operating costs	(591.8)	(548.2)
4	Operating profit	445.6	421.0
5	Net interest payable	(105.9)	(95.9)
6	Other finance (charge)/income	(9.4)	6.8
	Profit on ordinary activities before taxation	330.3	331.9
7	Tax on profit on ordinary activities	(13.0)	(20.2)
	Profit for the financial year	317.3	311.7

The results above arise from continuing operations.

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 years stated above, and their historical cost equivalents.

Group statement of total recognised gains and losses

for the year ended 31 March

Notes	2009 £m	2008 £m
Profit on ordinary activities after taxation	317.3	311.7
20 Actuarial losses recognised in the pension scheme	(15.7)	(81.9)
7 Movement on current tax relating to the actuarial loss in the pension scheme	1.0	5.4
19 Movement on deferred tax relating to the actuarial loss in the pension scheme	3.4	19.2
Impact of change in tax rate on deferred tax	-	0.8
Total recognised gains and losses relating to the year	306.0	255.2

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

Group and company balance sheets at 31 March

Notes	Group		Company		
	2009 £m	2008 £m	2009 £m	2008 £m	
	Fixed assets				
11	Tangible assets	4,567.9	4,388.3	4,567.9	4,388.3
12	Investments	1,609.1	1,609.1	1,609.1	1,609.1
		6,177.0	5,997.4	6,177.0	5,997.4
	Current assets				
13	Stocks	12.8	16.6	12.8	16.6
14	Debtors	263.1	232.7	559.2	568.5
	Investments – money market deposits	-	170.0	-	-
	Cash at bank and in hand (including short-term deposits)	913.3	522.3	574.7	330.7
		1,189.2	941.6	1,146.7	915.8
	Creditors: amounts falling due within one year				
15,16	Short-term borrowings	(300.4)	(291.1)	(300.4)	(291.1)
15	Other creditors	(448.3)	(401.3)	(448.4)	(401.3)
		(748.7)	(692.4)	(748.8)	(692.4)
	Net current assets	440.5	249.2	397.9	223.4
	Total assets less current liabilities	6,617.5	6,246.6	6,574.9	6,220.8
	Creditors: amounts falling due after more than one year				
16	Loans and other borrowings	(4,900.3)	(4,525.4)	(4,900.3)	(4,525.4)
17	Other creditors	(126.3)	(123.8)	(126.3)	(123.8)
18	Provisions for liabilities and charges	(49.9)	(77.4)	(49.9)	(77.4)
20	Defined benefit pension liability (net)	(71.1)	(62.5)	(71.1)	(62.5)
	Net assets including pension deficit	1,469.9	1,457.5	1,427.3	1,431.7
	Capital and reserves				
22	Called up share capital	860.0	860.0	860.0	860.0
23	Profit and loss account	609.9	597.5	567.3	571.7
	Total shareholder's funds	1,469.9	1,457.5	1,427.3	1,431.7

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

The financial statements on pages 48 to 82 were approved by the board of Directors on 27 May 2009 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	2009 £m	2008 £m
(a) Net cash inflow from operating activities	630.5	595.7
Returns on investments and servicing of finance		
Interest received	230.7	226.0
Interest paid	(218.9)	(220.5)
(b) Issue costs of new debt issued	(2.6)	(0.4)
Interest element of finance lease rental payments	(3.7)	(4.9)
Net cash inflow from returns on investments and servicing of finance	5.5	0.2
Taxation		
Corporation tax received	6.5	3.8
Payments to other Anglian Water Group Limited group undertakings	(15.6)	(29.6)
	(9.1)	(25.8)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(432.1)	(447.6)
Grants and contributions received	24.3	33.5
Disposal of tangible fixed assets	2.0	2.5
Net cash outflow for capital expenditure and financial investment	(405.8)	(411.6)
Equity dividends paid to shareholders	(293.1)	(291.1)
Net cash outflow before management of liquid resources and financing	(72.0)	(132.6)
(c) Management of liquid resources		
(d) Increase in short-term deposits and investments	(32.7)	(98.8)
Net cash outflow from management of liquid resources	(32.7)	(98.8)
Financing		
(d) Increase in loans	534.1	300.9
(d) Repayment of amounts borrowed	(238.2)	(2.7)
(d) Capital element of finance lease rental payments	(2.9)	(27.2)
Net cash inflow from financing	293.0	271.0
(d) Increase in cash	188.3	39.6

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

	2009 £m	2008 £m
Operating profit	445.6	421.0
Depreciation (net of amortisation of deferred grants and contributions)	228.3	217.0
Profit on sale of fixed assets	(1.9)	(2.5)
Net movement in provisions	(12.8)	(10.8)
	659.2	624.7
Working capital:		
Decrease/(increase) in stocks	3.8	(4.9)
Increase in debtors	(33.0)	(17.4)
Increase/(decrease) in creditors	0.5	(6.7)
	(28.7)	(29.0)
Net cash inflow from operating activities	630.5	595.7

(b) Analysis of net debt

	1 April 2008 £m	Cash flows £m	Non-cash movements £m	31 March 2009 £m
Cash at bank and in hand	108.6	188.3	-	296.9
Deposits and investments	583.7	32.7	-	616.4
Debt due within one year	(291.1)	241.1	(250.4)	(300.4)
Debt due after one year	(4,525.4)	(534.1)	159.2	(4,900.3)
	(4,124.2)	(72.0)	(91.2)	(4,287.4)

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 £616.4 million (2008: £413.7 million) of short-term deposits maturing within three months, which are included in the heading 'cash at bank and in hand' in the balance sheet.

(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

	2009 £m	2008 £m
At beginning of year	(4,124.2)	(3,896.2)
Net increase in cash	188.3	39.6
Increase in short-term bank deposits and investments	32.7	98.8
Increase in loans	(534.1)	(300.9)
Repayment of amounts borrowed	238.2	2.7
Issue costs of new debt issued	2.6	0.4
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	(1.4)	(1.3)
Indexation of loan stock and RPI swaps	(92.4)	(94.5)
Capital element of finance lease rental payments	2.9	27.2
At end of year	(4,287.4)	(4,124.2)

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(e) below as relating to grants and contributions.

a) Change in accounting standard

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

b) Basis of preparation

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

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

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

c) Turnover

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

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £3.4 million).

d) 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 (see glossary of terms on page 116).

(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:

Buildings	30–60 years	Vehicles, mobile plant and equipment	3–10 years
Operational assets	30–100 years	Fixed plant	12–40 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.

e) Grants and contributions

Grants and contributions for capital expenditure include Government grants, infrastructure and connection charges, developer payments for water and sewer requisitions, sewer adoption fees and other contributions from third parties.

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

f) 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.

g) Investments

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

h) Stocks

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

i) 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.

j) Research and development

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

k) 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.

l) 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(d)). 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.

m) 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.

n) 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.

o) 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.

p) Borrowings

A financial liability is initially recognised net of issues costs incurred. Costs that are incurred directly in connection with the issue of

a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument. Indexation on index linked borrowings is calculated with reference to the current applicable UK RPI index compared to the UK RPI index applicable at the time of issue. It is payable on the maturity of each respective borrowing. The total interest charge on the index linked borrowings is a product of the indexation accrued to date and the nominal coupon rate payable on the indexed principal of the borrowings.

q) 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 and swaptions are used to manage the group's interest cost and to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Premiums on swaptions are included in the calculation of the contracted rates implicit in the instrument. Interest rate swaps and swaptions are not revalued to fair value prior to maturity.

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. Where a financial instrument is used to manage interest cost but is not part of a hedging relationship, gains are recognised on maturity of the instrument and losses are recognised immediately where there is an estimated future net cash outflow over the remaining life of the instrument.

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

r) 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.

s) 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.

t) 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.

u) Other onerous contract costs

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

v) 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

	2009 £m	2008 £m
Operating costs/(credits) before depreciation:		
Raw materials and consumables	10.7	7.4
Other operating costs	269.0	244.8
Staff costs (see note 9)	142.4	139.0
Own work capitalised	(57.5)	(58.5)
Contribution to Anglian Water Trust Fund	0.8	1.0
Profit on sale of fixed assets	(1.9)	(2.5)
Total operating costs before depreciation	363.5	331.2
Depreciation of tangible fixed assets	239.0	227.4
Amortisation of deferred grants and contributions	(10.7)	(10.4)
Depreciation net of amortisation of deferred grants and contributions	228.3	217.0
Total operating costs	591.8	548.2

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

Included within other operating costs in 2009 are costs relating to the Pitsford water quality incident, which occurred in the summer of 2008, amounting to £4.9 million.

4 Operating profit

	2009 £m	2008 £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	0.3	0.1
– other services	0.1	0.1
Total fees paid to the auditors	0.6	0.4
Plant and machinery lease rentals payable	2.7	2.6
Other operating lease rentals payable	3.8	4.1
Research and development expenditure	0.4	0.5

The fees paid to auditors for other non-audit services largely relate to work undertaken on the Periodic Review 2009, the annual offering circular update to enable the ongoing issue of listed debt, and regulatory reporting to Ofwat.

5 Net interest payable

	2009 £m	2008 £m
Other loans including financing expenses	237.3	222.8
Indexation	92.4	94.5
Finance leases	3.7	4.3
Interest receivable from Anglian Water Services Holdings Limited	(193.6)	(193.6)
Other interest receivable	(33.9)	(32.1)
Net interest payable and similar items	105.9	95.9

6 Other finance charges/(income)

	2009 £m	2008 £m
Unwinding of discount on provisions (see note 18)	1.7	1.0
Defined benefit pension scheme (see note 20(f))	7.7	(7.8)
Other finance charges/(income)	9.4	(6.8)

7 Taxation

	2009 £m	2008 £m
a) Analysis of tax charge in the year		
Current tax:		
UK corporation tax	30.2	44.0
Adjustments in respect of previous periods	11.6	13.0
Total current tax charge	41.8	57.0
Deferred tax:		
Charge/(credit) for timing differences arising in year	8.3	(2.1)
Impact of discounting on deferred tax liability	(19.3)	(12.7)
Impact of decrease in discount rates	(1.7)	(0.1)
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	-	(13.8)
Adjustments in respect of previous periods	(16.1)	(8.1)
Total deferred tax credit	(28.8)	(36.8)
Total tax charge on profit on ordinary activities	13.0	20.2

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £1.7 million (2008: credit of £0.1 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.

Notes to the financial statements continued

7 Taxation continued

The 2008 current tax charge includes a credit of £12.2 million from another Anglian Water Group Limited group undertaking for the utilisation of ACT. There is no similar credit in 2009.

The current tax adjustment for prior years relates to a prior year capital allowance disclaimer. In 2008 the current tax adjustment in respect of previous periods 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.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited amounting to £193.6 million (2008: £193.6 million).

In addition to the current tax charge above, a £1.0 million credit (2008: £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 (28 per cent, 2008: 30 per cent). The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before tax	330.3	331.9
Profit on ordinary activities at the standard UK rate of Corporation Tax (28 per cent, 2008: 30 per cent)	92.5	99.6
Effects of:		
Items not deductible for tax purposes	0.5	0.4
Items not taxable	(0.5)	(0.7)
Group relief utilised	(54.2)	(58.1)
Depreciation not eligible for tax purposes	4.8	0.7
Industrial buildings allowance	(4.5)	-
Depreciation for the year (less than)/in excess of capital allowances	(9.7)	1.8
Short-term timing differences	1.3	0.3
Adjustment to tax charge in respect of previous periods	11.6	13.0
Current tax charge for the year	41.8	57.0

8 Dividends

	2009 £m	2008 £m
Previous year final dividend	100.0	35.0
Current year interim dividend	-	62.0
Dividend paid by the company and retained within the Anglian Water Services Financing group	193.1	194.1
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)
	293.6	290.6

A dividend of £193.1 million (2008: £194.1 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. The remaining £0.5 million which has been committed to be paid will be settled in June 2009.

The Directors have proposed a final distribution for the year ended 31 March 2009 of 15.12 pence per share, which is a total of £130.0 million. This distribution has not been accounted for within the 2008/09 financial statements as it was proposed and approved after the year end. The payment has been retained in a distributions account within Anglian Water Services pending a decision being taken later in the year to agree the precise quantum and mechanism for making the ultimate distribution. This will depend on the outlook for RPI at the time the decision is taken.

9 Employee information and Directors' emoluments

a) Employee information

	2009 £m	2008 £m
Staff costs:		.
Wages and salaries	115.9	113.5
Social security costs	10.0	9.5
Pension costs – defined contribution (see note 20)	2.9	2.4
Pension costs – defined benefit (see note 20)	13.6	13.6
	142.4	139.0

Staff costs for the year ended 31 March 2009 includes £57.5 million (2008: £58.5 million) of costs that have been capitalised as 'own work capitalised'.

	2009	2008
Average number of full-time equivalent persons employed (including Executive Directors):		
Water Services	613	706
Wastewater Services	1,364	1,264
Customer Services	813	851
Asset Management and Other	982	1,012
	3,772	3,833

Notes to the financial statements

continued

9 Employee information and Directors' emoluments continued

b) Directors' emoluments

	2009 £'000	2008 £'000
Total aggregate emoluments	1,537	1,450
Company contributions to defined contribution pension schemes	212	222

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2008: one Director) under a defined benefit scheme. Retirement benefits are accruing to four Directors (2008: three Directors) under a defined contribution scheme.

c) Highest paid Director

	2009 £'000	2008 £'000
Aggregate highest paid Director's emoluments	405	581

The company's contribution in respect of the highest paid Director into defined contribution pension schemes was £96,000 (2008: £150,000).

10 Profit for the financial year

The group profit for the financial year includes a profit of £300.5 million (2008: £298.7 million), which has been dealt with in the financial statements of the parent undertaking.

11 Tangible fixed assets

	Group and Company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
Cost						
At 1 April 2008	31.4	2,718.0	3,354.6	768.4	316.6	7,189.0
Additions	-	-	-	-	434.5	434.5
Transfers on commissioning	3.1	165.8	200.9	48.9	(418.7)	-
Disposals	-	-	-	(0.2)	(0.1)	(0.3)
At 31 March 2009	34.5	2,883.8	3,555.5	817.1	332.3	7,623.2
Grants and contributions						
At 1 April 2008	-	(214.5)	-	-	(0.1)	(214.6)
Additions	-	(14.7)	-	-	(1.1)	(15.8)
At 31 March 2009	-	(229.2)	-	-	(1.2)	(230.4)
Depreciation						
At 1 April 2008	(3.0)	(659.6)	(1,350.7)	(572.8)	-	(2,586.1)
Charge for the year	(0.5)	(75.0)	(113.6)	(49.9)	-	(239.0)
Disposals	-	-	-	0.2	-	0.2
At 31 March 2009	(3.5)	(734.6)	(1,464.3)	(622.5)	-	(2,824.9)
Net book amount						
At 31 March 2009	31.0	1,920.0	2,091.2	194.6	331.1	4,567.9
At 31 March 2008	28.4	1,843.9	2,003.9	195.6	316.5	4,388.3

Tangible fixed assets at 31 March 2009 include land of £20.5 million (2008: £19.0 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

	2009 £m	2008 £m
Cost	251.0	251.0
Aggregate depreciation	(158.8)	(151.7)
Net book amount	92.2	99.3

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 2009.

	2009 £m	2008 £m
Contracted for but not provided in the financial statements	122.1	138.9

Notes to the financial statements

continued

12 Fixed asset investments

	Group and Company	
	2009 £m	2008 £m
Loan to Anglian Water Services Holdings Limited	1,609.1	1,609.1
Investment in Anglian Water Services Financing Plc	-	-

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 2009.

13 Stocks

	Group and Company	
	2009 £m	2008 £m
Raw materials and consumables	12.8	16.6

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

14 Debtors

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts falling due within one year				
Trade debtors	133.4	112.3	133.4	112.3
Amounts owed by other Anglian Water Group Limited group undertakings	0.9	1.2	297.2	339.0
Other debtors	7.6	11.5	7.4	9.5
Prepayments and accrued income	119.4	105.7	119.4	105.7
	261.3	230.7	557.4	566.5
Amounts falling due after more than one year				
Amounts owed by other Anglian Water Group Limited group undertakings	1.8	2.0	1.8	2.0
	263.1	232.7	559.2	568.5

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

15 Creditors: amounts falling due within one year

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Current portion of long-term loans	298.3	288.1	298.3	288.1
Obligations under finance leases	2.1	3.0	2.1	3.0
Short-term borrowings (see note 16)	300.4	291.1	300.4	291.1
Trade creditors	115.9	115.4	115.9	115.4
Amounts owed to other Anglian Water Group Limited group undertakings	0.7	1.7	104.7	89.3
Receipts in advance	110.0	107.3	110.0	107.3
Corporation tax	95.3	63.7	95.3	63.7
Other taxation and social security	2.9	4.5	2.9	4.5
Deferred grants and contributions	7.2	9.2	7.2	9.2
Accruals	116.3	99.5	12.4	11.9
Other creditors	448.3	401.3	448.4	401.3

Receipts in advance includes £89.6 million (2008: £84.5 million) relating to amounts received from customers for water and wastewater charges in respect of the following year.

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	
	2009 £m	2008 £m	2009 £m	2008 £m
Loans and other borrowings				
£100 million 5.5% index linked 2008 (c), (d), (g)	-	175.5	-	175.5
£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)	247.3	247.1	247.3	247.1
£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)	243.9	243.8	243.9	243.8
£275 million 7.882% fixed rate 2012/2037 ¹ (d), (g), (h)	273.8	273.4	273.8	273.4
£250 million 5.25% fixed rate 2015 (b), (d), (g)	249.7	249.5	249.7	249.5
£150 million 5.5% fixed rate 2017/2040 ² (b), (d), (g), (h)	148.8	148.6	148.8	148.6
£150 million 4.125% index linked 2020 (c), (d), (g)	195.2	187.9	195.2	187.9
£75 million 3.666% index linked 2024 (c), (d), (g)	92.5	89.0	92.5	89.0
£200 million 3.07% index linked 2032 (c), (d), (g)	245.2	235.9	245.2	235.9
£60 million 3.07% index linked 2032 (c), (d), (g)	73.6	70.7	73.6	70.7
Finance leases (b), (d)	62.3	65.2	62.3	65.2
£150 million index linked swap 2024 (f), (g)	35.0	29.0	35.0	29.0
£175 million index linked swap 2030 (f), (g)	40.8	33.7	40.8	33.7
£258 million index linked swap 2013 (f), (g)	50.0	39.1	50.0	39.1
€350 million 5.375% fixed rate 2009 (a), (d), (g)	229.3	229.4	229.3	229.4
€650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	452.8	452.7	452.8	452.7
US\$100 million 7.01% private placements 2008 (a), (d), (g)	-	71.0	-	71.0
US\$25 million 7.07% private placements 2009 (a), (g)	2.7	5.3	2.7	5.3
US\$25 million 'mark to market' adjustment (e), (g)	-	0.1	-	0.1
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)	138.3	138.2	138.3	138.2
£402 million 2.40% index linked 2035 (c), (d), (g)	457.3	443.3	457.3	443.3
£50 million 1.7% index linked 2046 (c), (d), (g)	55.3	53.2	55.3	53.2
£50 million 1.7% index linked 2046 (c), (d), (g)	55.1	53.4	55.1	53.4
£40 million 1.7146% indexation bond 2056 (c), (d), (g)	44.5	42.9	44.5	42.9
£50 million 1.6777% indexation bond 2056 (c), (d), (g)	55.6	53.7	55.6	53.7
£60 million 1.7903% indexation bond 2049 (c), (d), (g)	66.8	64.4	66.8	64.4
£60 million index linked swap 2008 (f), (g)	-	(4.4)	-	(4.4)
£90 million index linked swap 2008 (f), (g)	-	(6.6)	-	(6.6)
£100 million 1.3784% indexation bond 2057 (c), (d), (g)	110.6	104.7	110.6	104.7
£50 million 1.3825% indexation bond 2056 (c), (d), (g)	55.3	52.3	55.3	52.3
£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 (d), (g)	99.9	99.9	99.9	99.9
£100 million index linked swap 2057 (f), (g)	9.7	5.8	9.7	5.8
£75 million 1.449% indexation bond 2062 (c), (d), (g)	78.7	75.7	78.7	75.7
£50 million 1.52% indexation bond 2055 (c), (d), (g)	52.3	50.3	52.3	50.3
JPY 15 billion 2.925% fixed rate bond 2018/2037 (a), (b), (d), (g)	65.9	65.9	65.9	65.9
£65.9 million index linked swap 2030 (f), (g)	3.3	0.7	3.3	0.7
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	109.9	110.0	109.9	110.0
£50 million index linked swap 2043 (f), (g)	1.4	0.1	1.4	0.1
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (g)	25.0	-	25.0	-
€500 million 6.25% fixed rate bond 2016 (a), (d), (g)	392.2	-	392.2	-
£25 million 6.875% 2034 private placement (d), (g)	24.6	-	24.6	-
£90 million 10.0% fixed rate subordinated loan due to OHL	90.0	-	90.0	-
Total loans and other borrowings	5,200.7	4,816.5	5,200.7	4,816.5
Less amounts included in creditors falling due within one year	(300.4)	(291.1)	(300.4)	(291.1)
Loans and other borrowings due after more than one year	4,900.3	4,525.4	4,900.3	4,525.4

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 £2.9 million (2008: £66.7 million), the adjustment to the Euro loans is £(311.4) million (2008: £(112.8) million) and the adjustment to the Japanese Yen loans is £(49.6) million (2008: £(9.8) million).
- (b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index linked debt in accordance with the group's hedging policy (see page 57).
- (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 £62.0 million (2008: £67.5 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 £30.4 million (2008: £27.0 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 lends 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) creates a fixed and floating charge 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 2009 this charge applies to £5,110.7 million (2008: £4,816.5 million) of the debt listed above.

¹ The coupon for this instrument will increase to Floating rate LIBOR + 6.0 per cent effective July 2012.

² The coupon for this instrument will increase to Floating rate 3 month LIBOR + 3.5 per cent effective October 2017.

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

	2009		2008	
	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)	298.3	4,768.2	288.1	4,480.2
Amounts owed to group undertakings (subordinated loans)	-	90.0	-	-
Debt issue costs	-	(18.1)	-	(17.0)
Obligations under finance leases	2.1	60.2	3.0	62.2
	300.4	4,900.3	291.1	4,525.4

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments continued

Maturity analysis of financial liabilities

	Group and Company	
	2009 £m	2008 £m
Less than one year	302.3	293.3
Between one and two years	4.3	252.4
Between two and five years	845.5	152.0
After five years	4,069.4	4,138.3
	5,221.5	4,836.0

Included above are amounts due under finance leases of £2.1 million (2008: £3.0 million) payable within one year, £2.5 million (2008: £2.1 million) payable between one and two years, £9.6 million (2008: £8.5 million) payable between two and five years and £48.1 million (2008: £51.6 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 £20.8 million (2008: £19.5 million), of which £1.9 million falls due in less than one year (2008: £2.2 million). This analysis is net of issue costs totalling £18.1 million (2008: £17.1 million).

Borrowing facilities

	Group	
	2009 £m	2008 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	340.0	330.0
Expiring between one and two years	225.0	-
Expiring between two and five years	-	225.0
Expiring in more than five years	-	-
	565.0	555.0

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, currency risks, liquidity risks and credit 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 2009 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, certificates of deposit and AAA rated money market 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 44). 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.

a) Market risk

i) Foreign currency

The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the company.

ii) Interest rate

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

b) Credit risk

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

c) Liquidity risk

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

Financial instruments disclosures

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

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments continued

Fair value of financial assets and financial liabilities

	2009		2008 restated ¹	
	Book value £m	Fair value ² £m	Book value £m	Fair value ² £m
The fair value of the group's financial instruments at 31 March was:				
Cash at bank and in hand	913.3	913.3	522.3	522.3
Current asset investments	-	-	170.0	170.0
Short-term borrowings	(394.9)	(397.2)	(270.0)	(275.6)
Long-term borrowings	(5,023.5)	(4,808.2)	(4,505.0)	(4,505.2)
Interest rate swaps	358.0	467.3	55.9	58.0
Index linked swaps	(140.3)	(386.8)	(97.4)	(273.9)
	(4,287.4)	(4,211.6)	(4,124.2)	(4,304.4)
Fixed asset investments	1,609.1	1,930.9	1,609.1	1,930.9
Provisions excluding deferred tax and pension obligations	(20.8)	(37.2)	(19.5)	(19.5)
	(2,699.1)	(2,317.9)	(2,534.6)	(2,393.0)

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

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

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

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

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2009. The value at that date was determined by market rates, which fluctuate over time. The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved.

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

	2009			2008		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	23.9	(295.8)	(271.9)	14.2	(159.2)	(145.0)
Reversal of items unrecognised at 1 April	(2.1)	8.3	6.2	(0.8)	13.1	12.3
Recognised during the year	(21.2)	22.0	0.8	(10.9)	13.4	2.5
Arising during the year	115.1	(127.7)	(12.6)	21.4	(163.1)	(141.7)
Unrecognised at 31 March	115.7	(393.2)	(277.5)	23.9	(295.8)	(271.9)

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 £277.5 million (2008: net loss £271.9 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2009.

Of the unrecognised gains and losses at 31 March 2009, a net gain of £1.7 million (2008: net gain of £0.8 million) is expected to be included in the profit and loss account for the year ended 31 March 2010 and the balance in future years.

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 2009

	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) ¹	(5,200.7)	(2,575.8)	(330.0)	(2,294.9)	-	6.9%	12.8
Cash, deposits and current asset investments (all sterling)	913.3	-	913.3	-	-		
Net debt	(4,287.4)	(2,575.8)	583.3	(2,294.9)	-		
Fixed asset investments	1,609.1	-	-	1,609.1	-	12.0%	55.0
Provisions	(20.8)	-	-	-	(20.8)		
Net financial liabilities	(2,699.1)	(2,575.8)	583.3	(685.8)	(20.8)		

¹ The underlying currencies of borrowings as set out on page 66 have been swapped to sterling.

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 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) ¹	(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	-	12.0%	56.0
Provisions	(19.5)	-	-	-	(19.5)		
Net financial liabilities	(2,534.6)	(2,497.5)	237.3	(254.9)	(19.5)		

¹ The underlying currencies of borrowings as set out on page 66 have been swapped to sterling.

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	
	2009 £m	2008 £m
Deferred grants and contributions	126.3	123.8

18 Provisions for liabilities and charges

	Group and Company				
	Onerous lease obligation £m	Other onerous contracts £m	Coupon enhancement provision £m	Deferred tax provision £m	Total £m
At 1 April 2008	2.8	-	16.7	57.9	77.4
Credit for the year	(1.2)	-	-	(28.8)	(30.0)
Amounts received in the year	-	3.5	-	-	3.5
Unwinding of discount (note 6)	0.7	-	1.0	-	1.7
Utilised in the year	(0.3)	-	(2.4)	-	(2.7)
At 31 March 2009	2.0	3.5	15.3	29.1	49.9

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 13 years.

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

The coupon enhancement provision of £15.3 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 20 years and has been discounted.

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 £61.2 million.

	Group and Company	
	2009 £m	2008 £m
Accelerated capital allowances	655.2	672.6
Short-term timing differences	(8.3)	(16.4)
Surplus ACT asset	(142.5)	(142.5)
Undiscounted provision for deferred tax	504.4	513.7
Discount	(475.3)	(455.8)
Discounted provision for deferred tax	29.1	57.9
Deferred tax asset on pension liability (see note 20 (b))	(27.7)	(24.3)
Total deferred tax included in the balance sheet	1.4	33.6
As at 1 April 2008	33.6	
Deferred tax credited to the profit and loss account (see note 7 (a))	(28.8)	
Deferred tax credited to the statement of total recognised gains and losses	(3.4)	
At 31 March 2009	1.4	

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 2009. 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.

Contributions to the defined contribution pension scheme in the year were £2.9 million (2008: £2.4 million).

(a) Financial assumptions

The valuation used has been based on the informal valuation for AWGPS carried out as at 1 April 2008 (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 2009. The group contributed 15.6 per cent of pensionable pay in the year and for the year ending 31 March 2010 the expected contribution rate is 16.0 per cent. In addition, the group paid £10.9 million in deficit reduction payments in the year and anticipates it will pay £20.8 million in 2009/10.

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

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

¹ The general salary increase assumption is based on a long-term view.

(b) Scheme 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 2009 are:

	Expected rate of return % pa	AWGPS Fair value of scheme assets £m	Unfunded pensions Fair value of scheme assets £m	Hartlepool Fair value of scheme assets £m	Total Fair value of scheme assets £m
Equities	7.0	208.7	n/a	1.7	210.4
Corporate bonds	6.3	47.0	n/a	-	47.0
Gilts	4.0	311.8	n/a	10.8	322.6
Property	6.0	12.8	n/a	-	12.8
Alternatives	6.0	32.1	n/a	-	32.1
Other	0.5	49.7	n/a	-	49.7
Total assets		662.1	n/a	12.5	674.6
Fair value of scheme liabilities		(717.7)	(42.7)	(13.0)	(773.4)
Deficit in the scheme		(55.6)	(42.7)	(0.5)	(98.8)
Related deferred tax asset		15.6	12.0	0.1	27.7
Net pension liability		(40.0)	(30.7)	(0.4)	(71.1)

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2008 are:

	Expected rate of return % pa	AWGPS Fair value of scheme assets £m	Unfunded pensions Fair value of scheme assets £m	Hartlepool Fair value of scheme assets £m	Total 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)

Notes to the financial statements continued

20 Pension commitments continued

(c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2008	(778.5)	(44.2)	(15.3)	(838.0)
Current service cost	(12.6)	-	(0.4)	(13.0)
Past service cost	(0.6)	-	-	(0.6)
Members' contributions	(3.9)	-	(0.1)	(4.0)
Net interest	(48.7)	(2.7)	(1.0)	(52.4)
Benefits paid	25.7	2.5	0.4	28.6
Actuarial gain	100.9	1.7	3.4	106.0
At 31 March 2009	(717.7)	(42.7)	(13.0)	(773.4)

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2007	(714.8)	(42.0)	(14.5)	(771.3)
Current service cost	(12.6)	-	(0.4)	(13.0)
Past service cost	(0.6)	-	-	(0.6)
Members' contributions	(3.9)	-	-	(3.9)
Net interest	(37.6)	(2.2)	(0.8)	(40.6)
Benefits paid	26.1	2.4	0.4	28.9
Actuarial loss	(35.1)	(2.4)	-	(37.5)
At 31 March 2008	(778.5)	(44.2)	(15.3)	(838.0)

(d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2008	739.5	-	11.7	751.2
Expected return on scheme assets	44.1	-	0.6	44.7
Members' contributions	3.9	-	0.1	4.0
Employer's contributions	22.0	2.5	0.5	25.0
Benefits paid	(25.7)	(2.5)	(0.4)	(28.6)
Actuarial losses	(121.7)	-	-	(121.7)
At 31 March 2009	662.1	-	12.5	674.6

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2007	737.4	-	11.2	748.6
Expected return on scheme assets	47.8	-	0.6	48.4
Members' contributions	3.9	-	-	3.9
Employer's contributions	20.7	2.4	0.5	23.6
Benefits paid and expenses	(26.1)	(2.4)	(0.4)	(28.9)
Actuarial losses	(44.2)	-	(0.2)	(44.4)
At 31 March 2008	739.5	-	11.7	751.2

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

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

The actual return of the scheme assets in the year was £(77.0) million (2008: £4.0 million).

Notes to the financial statements continued

20 Pension commitments continued

(e) Amounts recognised in the statement of total recognised gains and losses

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2009				
Total actuarial (losses)/gains recognised	(20.8)	1.7	3.4	(15.7)
2008				
Total actuarial losses recognised	(79.3)	(2.4)	(0.2)	(81.9)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £123.5 million (2008: cumulative losses of £107.8 million).

(f) 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
2009 profit and loss account				
Current service cost	(12.6)	-	(0.4)	(13.0)
Past service cost	(0.6)	-	-	(0.6)
Charge to operating profit (see note 9)	(13.2)	-	(0.4)	(13.6)
Expected return on pension scheme assets	44.1	-	0.6	44.7
Interest on pension scheme liabilities	(48.7)	(2.7)	(1.0)	(52.4)
Amount charged to other finance charges	(4.6)	(2.7)	(0.4)	(7.7)
Charge to profit on ordinary activities before taxation	(17.8)	(2.7)	(0.8)	(21.3)

	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 (see note 9)	(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)

Notes to the financial statements
continued

20 Pension commitments continued

(g) Historical information

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation	(773.4)	(838.0)	(771.3)	(758.3)	(738.9)
Plan assets	674.6	751.2	748.6	708.2	588.3
Deficit	(98.8)	(86.8)	(22.7)	(50.1)	(150.6)
Experience adjustments on plan assets:					
Amount	(121.7)	(44.4)	(1.7)	77.6	8.7
Experience adjustments on plan liabilities:					
Amount	12.9	(37.2)	(2.9)	29.5	8.1

21 Commitment under operating leases

At 31 March 2009 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			
	2009		2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.2	0.3	0.8
Within two to five years	0.2	2.5	0.1	1.4
After five years	2.5	-	2.6	-
	2.7	2.7	3.0	2.2

22 Called up share capital

	Group and Company	
	2009 £m	2008 £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 2008	860.0	597.5	1,457.5
Total recognised gains and losses for the period	-	306.0	306.0
Dividend paid and committed	-	(293.6)	(293.6)
At 31 March 2009	860.0	609.9	1,469.9

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2008	860.0	571.7	1,431.7
Profit on ordinary activities after taxation	-	300.5	300.5
Actuarial loss recognised in the pension scheme	-	(15.7)	(15.7)
Movement on current tax relating to the actuarial loss in the pension scheme	-	1.0	1.0
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	3.4	3.4
Dividend paid and committed	-	(293.6)	(293.6)
At 31 March 2009	860.0	567.3	1,427.3

24 Contingencies

At 31 March 2009 £142.5 million (2008: £142.5 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 (ie 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 2009 amounted to £5,406.7 million (2008: £4,825.6 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2009.

There are no other material contingent liabilities at 31 March 2009 for which provision has not been made in these financial statements.

Notes to the financial statements continued

25 Events after balance sheet date

A final distribution for the year ended 31 March 2009 of £130.0 million was approved by the board on 22 May 2009 (see note 8).

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

Independent auditors' report

Independent auditors' report to the members of Anglian Water Services Limited

We have audited the group and parent company financial statements (the "financial statements") of Anglian Water Services Limited for the year ended 31 March 2009 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 Financial 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 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 2009 and of the group's profit and cash flows for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

27 May 2009

Regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 85 to 112 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 116.

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 company's activities are regulated by the conditions of a licence granted to the company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function, these business activities are referred to as non-appointed business (see note 3 on page 95).

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 88 and 90. A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 99 and 100. Other current cost disclosures appear on pages 101 to 111. Additional information required by the licence is shown on pages 92 to 98.

Under the Regulatory Accounting Guidelines the classification of certain balances within the regulatory accounts differs from that disclosed in the statutory financial statements. A reconciliation of the differences is provided on page 91.

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

	2009			2008		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	1,024.7	12.7	1,037.4	956.9	14.1	971.0
Operating costs	(358.7)	(6.7)	(365.4)	(328.5)	(7.0)	(335.5)
Historical cost depreciation	(228.0)	(0.3)	(228.3)	(217.0)	-	(217.0)
Operating income	1.9	-	1.9	2.5	-	2.5
Operating profit	439.9	5.7	445.6	413.9	7.1	421.0
Net interest payable	(132.1)	-	(132.1)	(102.1)	-	(102.1)
Profit on ordinary activities before taxation	307.8	5.7	313.5	311.8	7.1	318.9
Taxation:						
– current tax	(40.2)	(1.6)	(41.8)	(55.0)	(2.0)	(57.0)
– deferred tax	28.8	-	28.8	36.8	-	36.8
Profit on ordinary activities after taxation	296.4	4.1	300.5	293.6	5.1	298.7
Dividends	(289.5)	(4.1)	(293.6)	(285.5)	(5.1)	(290.6)
Retained profit for the year	6.9	-	6.9	8.1	-	8.1

Regulatory historical cost statement of total recognised gains and losses for the appointed business
for the year ended 31 March

	2009 £m	2008 £m
Profit on ordinary activities after taxation	296.4	293.6
Actuarial losses recognised in the pension scheme	(15.7)	(81.9)
Movement on current tax relating to the actuarial loss in the pension scheme	1.0	5.4
Movement on deferred tax relating to the actuarial loss in the pension scheme	3.4	19.2
Impact of change in tax rate on deferred tax	-	0.8
Total recognised gains and losses for the year	285.1	237.1

Regulatory historical cost balance sheet
as at 31 March

	2009			2008		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	4,510.9	0.6	4,511.5	4,328.5	0.9	4,329.4
Investments	1,609.1	-	1,609.1	1,609.1	-	1,609.1
Total fixed assets	6,120.0	0.6	6,120.6	5,937.6	0.9	5,938.5
Current assets						
Stocks	12.8	-	12.8	16.6	-	16.6
Debtors	559.2	-	559.2	568.5	-	568.5
Cash at bank and in hand	227.2	1.6	228.8	65.5	2.0	67.5
Investments and short-term deposits	345.9	-	345.9	263.2	-	263.2
Infrastructure renewals prepayment	56.4	-	56.4	58.9	-	58.9
Total current assets	1,201.5	1.6	1,203.1	972.7	2.0	974.7
Creditors: amounts falling due within one year						
Short-term borrowings	(300.4)	-	(300.4)	(291.1)	-	(291.1)
Other creditors	(345.3)	(0.6)	(345.9)	(327.5)	(0.9)	(328.4)
Corporation tax payable	(93.7)	(1.6)	(95.3)	(61.7)	(2.0)	(63.7)
Total creditors	(739.4)	(2.2)	(741.6)	(680.3)	(2.9)	(683.2)
Net current assets	462.1	(0.6)	461.5	292.4	(0.9)	291.5
Total assets less current liabilities	6,582.1	-	6,582.1	6,230.0	-	6,230.0
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(4,900.3)	-	(4,900.3)	(4,525.4)	-	(4,525.4)
Total creditors	(4,900.3)	-	(4,900.3)	(4,525.4)	-	(4,525.4)
Provisions for liabilities and charges						
Deferred tax provision	(29.1)	-	(29.1)	(57.9)	-	(57.9)
Other provisions	(20.8)	-	(20.8)	(19.5)	-	(19.5)
Deferred income – grants and contributions	(133.5)	-	(133.5)	(133.0)	-	(133.0)
Defined benefit pension scheme liabilities	(71.1)	-	(71.1)	(62.5)	-	(62.5)
	(254.5)	-	(254.5)	(272.9)	-	(272.9)
Net assets employed	1,427.3	-	1,427.3	1,431.7	-	1,431.7
Capital and reserves						
Called up share capital	860.0	-	860.0	860.0	-	860.0
Profit and loss account	567.3	-	567.3	571.7	-	571.7
Capital & reserves	1,427.3	-	1,427.3	1,431.7	-	1,431.7

Historical cost reconciliation between statutory accounts and regulatory accounts as at 31 March

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

	2009 £m Statutory UK GAAP	2009 £m Regulatory	Explanation
Profit and loss account			
Operating profit	445.6	445.6	No difference
Profit before tax	313.5	313.5	No difference
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	4,567.9	4,511.5	The difference of £56.4m is attributable to the infrastructure renewals prepayment which is excluded from the fixed assets net book value and shown separately on the balance sheet within current assets in the Regulatory Accounts and is in accordance with Regulatory Accounting Guidance 3.06.
Current assets			
Infrastructure renewals prepayment	-	56.4	
Current assets			
Investments and short-term deposits	-	345.9	Deposits with a maturity of greater than one day but less than three months of £345.9m 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	574.7	228.8	
Deferred income – grants and contributions			
Short-term and long-term other creditors	(133.5)	-	Deferred grants and contributions within the statutory accounts are analysed between creditors: amounts falling due within one year (£7.2m) and amounts falling due after more than one year (£126.3m). This is in contrast to the regulatory accounts, which shows total deferred grants and contributions of £133.5m within provisions for liabilities and charges.
Provisions for liabilities and charges	-	(133.5)	

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 87, under the Regulatory Accounting Guidelines certain balances are treated differently in the regulatory accounts.

Cumulative infrastructure renewals expenditure, net of depreciation, has been included within current assets in the regulatory historical cost balance sheet in accordance with Regulatory Accounting Guidelines 3.06. This represents a departure from the accounting policy adopted in the company's statutory financial statements and Financial Reporting Standard (FRS) 15, which require this amount to be included within fixed assets.

The following detailed policy on revenue recognition supplements the turnover accounting policy within the statutory financial statements.

- i) The revenue recognition policies in the Statutory and Regulatory Accounts are aligned resulting in a consistent reported turnover in the two sets of accounts.
- ii) Occupied properties are chargeable for water and sewerage and revenue is recognised based on services supplied. Unoccupied properties are non-chargeable and therefore no billing is raised and no turnover recognised.
 - (a) Household and non-household charges apply to vacant premises in certain circumstances as set out in our legal Charges Scheme as approved by Ofwat on an annual basis and revenue is recognised on these properties consistent with occupied properties. Vacant premises which attract charges include:
 - Premises which are left unoccupied for periods of time but are left with bedding, a desk or other furniture so that they may be used as a dwelling or as office or commercial premises;
 - Furnished premises used for multiple occupation with shared facilities;
 - Furnished premises used as holiday, student, hostel or other accommodation;
 - Furnished premises used for short-term occupation or letting where the occupation or term of the tenancy is for less than six months;
 - Premises in respect of which renovation or building work is being undertaken;
 - Premises which are not normally regarded as being occupied such as cattle troughs and car parks; or
 - All metered premises (furnished and unfurnished) where water is being consumed.
 - (b) Further, the following provisions are applied in respect of disconnections:
 - Premises listed in Schedule 4A of the Water Industry Act 1991 (eg any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges;
 - If the water supply to any premises is disconnected for any reason but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied;
 - If it is found subsequently that the premises were occupied for any period when we were advised that the premises would be unoccupied the appropriate Sewerage Unmeasured Tariff will then apply to that period, appropriate retrospective bills are raised and revenue recognised at that point;

- In the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence and revenue recognised. Occupier is defined to include any person who owns premises as set out in part ii) (a) above and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (eg a Bulk Meter Agreement).
- iii) Charges on income relating to debt recovery costs, which are chargeable to customers, are credited to operating costs and charged to the relevant customer account. Turnover is unaffected by these debt recovery costs. Historically we have only sought to recover court and solicitors fees where we have made a court summons. For 2009/10 the legal Charges Scheme has been amended to allow debt recovery agency fees to be recharged to customers.
- iv) As soon as new properties are occupied, liability for water and sewerage charges commences, and revenue starts to accrue.

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 2009 the results for the year (financial and non-financial) resulted in the following performance assessment against the overall company targets:

	2009 actual %	2009 target %	2008 actual %	2008 target %
Financial performance	24.9	55.0	42.6	60.0
Capital delivery index	15.0	15.0	15.0	15.0
Overall performance assessment (OPA)	20.0	20.0	15.0	15.0
Customer service index (CSI)	10.0	10.0	10.0	10.0
	69.9	100.0	82.6	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.

Additional information required by the licence continued

Performance bonuses paid by the company to Directors are as follows:

	2009 £'000	2008 £'000
J Cox ¹	364.5	123.9
S Longhurst ²	150.1	-
P Simpson	98.9	100.4
J Spencer	63.7	53.8
C Newsome	62.4	56.4

¹ An element of Mr Cox's bonus in 2008/09 was directly linked to the standards of performance of the company, and against this he achieved 73.9 per cent (2008: 82.6 per cent). A higher proportion of his bonus related to the company's performance in 2008/09 as compared to the prior year.

² An element of Mr Longhurst's bonus in 2008/09 was directly linked to the standards of performance of the company, and against this he achieved 73.6 per cent. The bonus arrangements for Mr Longhurst in 2007/08 were linked entirely to the standards of performance of Anglian Water Group Limited.

For 2009/10 a similar arrangement exists. The element which relates to company performance is made up as follows:

	%
Financial performance	55.0
Capital delivery index	15.0
Overall performance assessment (OPA)	20.0
Customer service index (CSI)	10.0
	100.0

Stretching targets are set for the company's 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 and the final bonus is calculated according to how these have been met during the year, as determined by the Remuneration Committee.

Additionally in 2009/10 certain Directors may benefit from a long-term incentive plan which is linked to a basket of financial and non-financial performance measures.

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) 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 2009.

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

Sums borrowed by the appointee from Anglian Water Services Financing Plc, its financing subsidiary at 31 March 2009, were:

Type of loan	Principal amount £m	Repayment date	Interest rate %
Fixed rate	100.0	2014	12.375
Fixed rate	200.0	2023	6.875
Fixed rate	200.0	2029	6.625
Fixed rate	229.3	2009	6.358
Fixed rate	2.7	2009	6.570
Fixed rate	16.3	2009	7.168
Fixed rate	138.5	2011	7.065
Fixed rate	246.0	2030	6.293
Fixed rate (v)	275.0	2012/2037	7.882
Fixed rate	250.0	2022	5.837
Fixed rate	394.0	2016	6.940
Fixed rate	25.0	2034	6.875
Fixed rate (v)	75.0	2017/2040	5.500
Index linked (ii)	195.2	2020	4.125
Index linked (ii)	248.2	2032	3.070
Index linked (ii)	74.5	2032	3.070
Index linked (ii)	93.1	2024	3.666
Index linked (ii)	459.2	2035	2.400
Index linked (ii)	55.6	2046	1.700
Index linked (ii)	55.3	2046	1.700
Index linked (ii)	44.5	2056	1.7146
Index linked (ii)	55.7	2056	1.6777
Index linked (ii)	66.8	2049	1.7903
Index linked (ii)	110.6	2057	1.3784
Index linked (ii)	55.3	2056	1.3825
Index linked (ii)	78.7	2062	1.4490
Index linked (ii)	52.5	2055	1.5200
Floating rate	250.0	2015	LIBOR plus 0.375
Floating rate (v)	75.0	2017/2040	LIBOR plus 0.682
Floating rate	65.9	2018/2037	LIBOR plus 0.530
Floating rate	25.1	2038	LIBOR plus 1.130
Floating rate	453.3	2013	LIBOR plus 0.9775
Floating rate	110.0	2043	LIBOR plus 0.850
Floating rate	50.0	2010	LIBOR plus 1.500
Floating rate	100.0	2057	LIBOR plus 0.340
Index linked swaps (iii), (iv)	50.0	2013	-
Index linked swaps (iii), (iv)	35.0	2024	-
Index linked swaps (iii), (iv)	40.8	2030	-
Index linked swaps (iii), (iv)	9.7	2057	-
Index linked swaps (iii), (iv)	3.3	2030	-
Index linked swaps (iii), (iv)	1.4	2043	-
	5,066.5		

LIBOR is the London Inter Bank Offer Rate.

Sums borrowed by the appointee from Osprey Holding Company Limited, an intermediary parent company at 31 March 2009, were:

Type of loan	Principal amount £m	Repayment date	Interest rate %
Fixed rate	90.0	2013	10.0

This loan is classified as subordinated debt and therefore is excluded from covenant ratio testing under the Common Terms Agreement (CTA).

- (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 £289.5 million is payable for the year (2008: £285.5 million). Of this dividend, £193.6 million (2008: £193.6 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 95). Of the dividend payable in the current year, £0.5 million which was committed will be settled in June 2009. The overall amount of the company's normal dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by AWS and in practice will be limited to a net debt to RCV gearing ratio of 83 per cent. The dividends declared or paid will not impair the ability of the company to finance the Appointed Business, and the dividend policy is compliant with Condition F of the Licence.

(c) Guarantees/securities

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2009 amounted to £5,406.7 million (2008: £4,825.6 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2009 (2008: 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	0.4
Human resources and payroll charges	AWG Central Services Limited	Actual costs	0.4
Corporate responsibility and communications	AWG Central Services Limited	Actual costs	0.2
Treasury charges	AWG Central Services Limited	Actual costs	0.7
Transport services	AWG Group Limited and Alpheus Limited	Actual costs	0.2

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

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Directors' costs	AWG Central Services Limited	-	Time apportionment	0.9
Internal audit services	AWG Central Services Limited	-	Negotiated	0.6
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
Pension admin, advice and audit	AWG Central Services Limited	-	Pass through	0.3
Other pass through costs	AWG Central Services Limited	-	Pass through	0.1
Developer services and network contracts	Morrison Utility Services Limited ¹	57.0	Competitive tendering	0.8
Rental of office accommodation	Ambury Developments	0.5	Other market testing	0.2
10 year office lease	Ambury Developments	0.5	Other market testing	0.2
Tax ²	AWG Group Limited	-	Surrender of group tax losses	15.6
Rental of office accommodation	AWG Group Limited	-	Other market testing	0.2
				19.7*

* This total includes amounts of £0.7 million that were capitalised by the appointed business.

¹ Morrison Utility Services Limited ceased 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 £0.8 million (2008: £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		2009 Appointed £m	2008 Appointed £m
2	Turnover	1,024.7	956.9
4	Current cost operating costs	(673.0)	(643.8)
3	Operating income	(0.4)	0.9
		351.3	314.0
3, 9	Working capital adjustment	-	2.1
	Current cost operating profit	351.3	316.1
	Net interest payable	(132.1)	(102.1)
9	Financing adjustment	(0.8)	8.9
	Current cost profit before taxation	218.4	222.9
	Current tax	(40.2)	(55.0)
	Deferred tax	28.8	36.8
	Current cost profit attributable to shareholder	207.0	204.7
	Dividends	(289.5)	(285.5)
8	Current cost loss for the year	(82.5)	(80.8)

The notes on pages 102 to 111 form part of these current cost financial statements.

Current cost balance sheet for the appointed business
at 31 March

Notes		2009 £m	2008 £m
	Fixed assets		
5	Tangible assets	23,010.3	22,987.5
	Third-party contributions since 31 March 1990	(803.2)	(790.0)
		22,207.1	22,197.5
6	Working capital	32.6	1.8
	Cash at bank and in hand	227.2	65.5
	Investments and short-term deposits	345.9	263.2
	Infrastructure renewals prepayment	56.4	58.9
	Net operating assets	22,869.2	22,586.9
	Non-operating assets and liabilities		
7	Short-term borrowings	(300.4)	(291.1)
	Non-trade debtors	299.2	343.8
	Non-trade creditors due within one year	(105.1)	(87.9)
	Investments – loan to group company	1,609.1	1,609.1
	Corporation tax payable	(93.7)	(61.7)
	Total non-operating assets and liabilities	1,409.1	1,512.2
	Creditors: amounts falling due after more than one year		
7	Loans and other borrowings	(4,900.3)	(4,525.4)
	Provisions for liabilities and charges		
	Deferred tax	(29.1)	(57.9)
	Defined benefit pension scheme liabilities	(71.1)	(62.5)
	Other provisions	(20.8)	(19.5)
	Total provisions	(121.0)	(139.9)
	Net assets	19,257.0	19,433.8
	Capital and reserves		
	Called up share capital	860.0	860.0
8	Profit and loss account	(345.8)	(252.0)
9	Current cost reserve	18,742.8	18,825.8
	Total capital and reserves	19,257.0	19,433.8

The notes on pages 102 to 111 form part of these current cost financial statements.

The financial statements were approved by the board of Directors on 18 June 2009 and signed on its behalf by:

Jonson Cox
Chief Executive

Scott Longhurst
Group Finance Director

Current cost cash flow statement

for the year ended 31 March

Notes	Appointed £m	2009 Non- appointed £m	Total £m	Appointed £m	2008 Non- appointed £m	Total £m
10(a) Net cash inflow from operating activities	624.8	5.7	630.5	588.6	7.1	595.7
Returns on investment and servicing of finance						
Interest received	212.7	-	212.7	214.0	-	214.0
Interest paid	(221.5)	-	(221.5)	(220.9)	-	(220.9)
Interest element of finance lease rental payments	(3.7)	-	(3.7)	(4.9)	-	(4.9)
Net cash outflow from returns on investments and servicing of finance	(12.5)	-	(12.5)	(11.8)	-	(11.8)
Taxation						
Corporation tax received/(paid)	6.5	-	6.5	4.9	(1.1)	3.8
Payments to other Anglian Water Group Limited group undertakings	(13.6)	(2.0)	(15.6)	(29.6)	-	(29.6)
	(7.1)	(2.0)	(9.1)	(24.7)	(1.1)	(25.8)
Capital expenditure and financial investment						
Gross cost of purchase of tangible fixed assets	(359.6)	-	(359.6)	(370.7)	-	(370.7)
Receipts of grants and contributions	24.3	-	24.3	33.5	-	33.5
Infrastructure renewals expenditure	(72.5)	-	(72.5)	(76.8)	-	(76.8)
Disposal of fixed assets	2.0	-	2.0	2.5	-	2.5
Net cash outflow from investing activities	(405.8)	-	(405.8)	(411.5)	-	(411.5)
Equity dividends paid	(289.0)	(4.1)	(293.1)	(286.0)	(5.1)	(291.1)
Management of liquid resources						
Net cash outflow from management of liquid resources	(41.7)	-	(41.7)	(126.4)	-	(126.4)
Net cash (outflow)/inflow before financing	(131.3)	(0.4)	(131.7)	(271.8)	0.9	(270.9)
Financing						
Increase in loans	534.1	-	534.1	300.9	-	300.9
Repayment of amounts borrowed	(238.2)	-	(238.2)	(2.7)	-	(2.7)
Capital element in finance lease rentals	(2.9)	-	(2.9)	(27.2)	-	(27.2)
Net cash inflow from financing	293.0	-	293.0	271.0	-	271.0
Increase/(decrease) in cash	161.7	(0.4)	161.3	(0.8)	0.9	0.1

The notes on page 111 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.

(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 or deflation 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 or deflation, as measured by changes in the RPI over the year.

(iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement costs. Between periodic AMP reviews, values are restated for inflation or deflation 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.

Notes to the current cost financial statements
continued

2 Turnover for the appointed business

	2009			2008		
	Water service £m	Sewerage service £m	Appointed total £m	Water service £m	Sewerage service £m	Appointed total £m
Measured	241.5	339.4	580.9	220.1	305.8	525.9
Unmeasured	137.4	219.5	356.9	135.6	215.6	351.2
Trade effluent	-	7.8	7.8	-	6.5	6.5
Large user and special agreement	30.7	28.4	59.1	29.1	24.3	53.4
Non-potable large user and special agreement	10.0	-	10.0	8.6	-	8.6
Rechargeable works	0.8	-	0.8	0.5	0.1	0.6
Bulk supplies/inter-company payments	6.3	1.3	7.6	6.8	2.0	8.8
Third-party services (including non-potable water)	17.1	1.3	18.4	15.9	2.1	18.0
Other sources	1.4	0.2	1.6	1.4	0.5	1.9
Total turnover	428.1	596.6	1,024.7	402.1	554.8	956.9

3 Operating income and working capital adjustment for the appointed business

	2009			2008		
	Water service £m	Sewerage service £m	Appointed total £m	Water service £m	Sewerage service £m	Appointed total £m
Current cost profit/(loss) on disposal of fixed assets	0.1	(0.5)	(0.4)	0.4	0.5	0.9
Working capital adjustment	-	-	-	1.0	1.1	2.1

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

2009 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	7.9	7.4	15.3	11.4	20.3	10.5	30.8	42.2
Power	16.0	10.8	26.8	6.8	23.4	1.3	24.7	31.5
Hired and contracted services	3.9	7.8	11.7	4.2	6.8	10.2	17.0	21.2
Materials and consumables	4.4	2.0	6.4	1.5	5.6	7.2	12.8	14.3
Services charges	10.4	-	10.4	1.2	5.8	-	5.8	7.0
Bulk supply imports	1.0	-	1.0	-	-	-	-	-
Other direct costs	0.1	2.6	2.7	0.2	0.6	0.2	0.8	1.0
Total direct costs	43.7	30.6	74.3	25.3	62.5	29.4	91.9	117.2
General and support expenditure	9.3	7.7	17.0	6.8	14.0	14.7	28.7	35.5
Total functional expenditure	53.0	38.3	91.3	32.1	76.5	44.1	120.6	152.7
Business activities:								
Customer services			13.8					16.4
Scientific services			6.1					3.5
Other business activities			2.4					3.7
Total business activities			22.3					23.6
Rates			26.5					16.2
Doubtful debts			10.4					11.7
Total less third-party services			150.5					204.2
Third-party services			3.5					0.5
Total operating costs			154.0					204.7
Capital costs:								
Infrastructure renewals charge	1.2	39.1	40.3	34.7	-	-	-	34.7
Depreciation ¹ (allocated)	50.1	21.8	71.9	28.5	118.5	13.5	132.0	160.5
Amortisation of deferred grants			(6.1)					(4.7)
Business activities depreciation ¹ (non-allocated)			5.2					7.9
Capital maintenance excluding third-party services			111.3					198.4
Third-party services – capital maintenance			3.6					1.0
Total capital maintenance			114.9					199.4
Total operating costs²			268.9					404.1
Current cost accounting (modern equivalent asset values)								
Service activities	1,377.7	5,590.2	6,967.9	14,154.0	1,784.0	104.4	1,888.4	16,042.4
Business activities			(15.2)					(22.9)
Service totals			6,952.7					16,019.5
Service assets for third parties			(57.0)					(9.0)
Total			6,895.7					16,010.5

¹ On a current cost basis.

² Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £14.4 million. This is split £11.0 million water distribution and £3.4 million sewerage.

Notes to the current cost financial statements
continued

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

	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.

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 2008	2,053.4	13.3	5,962.6	276.6	8,305.9
RPI adjustment	(7.7)	(0.1)	(22.5)	(1.0)	(31.3)
Disposals	(0.1)	-	-	(0.2)	(0.3)
Additions	91.1	1.0	77.7	12.2	182.0
At 31 March 2009	2,136.7	14.2	6,017.8	287.6	8,456.3
Depreciation					
At 1 April 2008	1,169.8	3.5	-	239.8	1,413.1
RPI adjustment	(4.4)	-	-	(0.9)	(5.3)
Disposals	-	-	-	(0.2)	(0.2)
Charge for the year	70.6	0.2	-	10.0	80.8
At 31 March 2009	1,236.0	3.7	-	248.7	1,488.4
Net book amount at 31 March 2009	900.7	10.5	6,017.8	38.9	6,967.9
Net book amount at 1 April 2008	883.6	9.8	5,962.6	36.8	6,892.8
(b) Fixed assets by type – sewerage service					
Gross replacement cost					
At 1 April 2008	5,599.4	16.3	13,529.7	374.2	19,519.6
RPI adjustment	(21.1)	(0.1)	(51.0)	(1.4)	(73.6)
Disposals	(2.2)	-	-	(0.3)	(2.5)
Additions	112.8	1.5	47.5	18.2	180.0
At 31 March 2009	5,688.9	17.7	13,526.2	390.7	19,623.5
Depreciation					
At 1 April 2008	3,090.8	3.9	-	330.2	3,424.9
RPI adjustment	(11.7)	-	-	(1.2)	(12.9)
Disposals	-	-	-	(0.2)	(0.2)
Charge for the year	156.5	0.2	-	12.6	169.3
At 31 March 2009	3,235.6	4.1	-	341.4	3,581.1
Net book amount at 31 March 2009	2,453.3	13.6	13,526.2	49.3	16,042.4
Net book amount at 1 April 2008	2,508.6	12.4	13,529.7	44.0	16,094.7
(c) Fixed assets by type – total					
Gross replacement cost					
At 1 April 2008	7,652.8	29.6	19,492.3	650.8	27,825.5
RPI adjustment	(28.8)	(0.2)	(73.5)	(2.4)	(104.9)
Disposals	(2.3)	-	-	(0.5)	(2.8)
Additions	203.9	2.5	125.2	30.4	362.0
At 31 March 2009	7,825.6	31.9	19,544.0	678.3	28,079.8
Depreciation					
At 1 April 2008	4,260.6	7.4	-	570.0	4,838.0
RPI adjustment	(16.1)	-	-	(2.1)	(18.2)
Disposals	-	-	-	(0.4)	(0.4)
Charge for the year	227.1	0.4	-	22.6	250.1
At 31 March 2009	4,471.6	7.8	-	590.1	5,069.5
Net book amount at 31 March 2009	3,354.0	24.1	19,544.0	88.2	23,010.3
Net book amount at 1 April 2008	3,392.2	22.2	19,492.3	80.8	22,987.5

Notes to the current cost financial statements
continued

5 Fixed assets continued

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

	Tangible fixed assets £m
Cost	
At 31 March 2009 per regulatory financial statements	28,079.8
Adjustment to opening balance at 31 March	(20,529.1)
Infrastructure renewals expenditure capitalised in the year	72.5
At 31 March 2009 per statutory financial statements	7,623.2
Grants and contributions	
At 31 March 2009 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(230.4)
At 31 March 2009 per statutory financial statements	(230.4)
Depreciation	
At 31 March 2009 per regulatory financial statements	(5,069.5)
Adjustment to opening balance at 31 March	2,319.6
Depreciation charge for infrastructure renewals expenditure	(75.0)
At 31 March 2009 per statutory financial statements	(2,824.9)
Net book value	
At 31 March 2009 per regulatory financial statements	23,010.3
Adjustment to opening balance at 31 March	(18,439.9)
Infrastructure renewals expenditure capitalised in the year	72.5
Depreciation charge for infrastructure renewals expenditure	(75.0)
At 31 March 2009 per statutory financial statements	4,567.9
Infrastructure renewals prepayment	
At 31 March 2009 per regulatory financial statements	56.4
Less infrastructure renewals prepayment	(56.4)
At 31 March 2009 per statutory financial statements	-

6 Working capital

	2009 £m	2008 £m
Stocks	12.8	16.6
Trade debtors – measured household	57.0	39.0
Trade debtors – unmeasured household	42.7	36.2
Trade debtors – measured non-household	20.8	26.6
Trade debtors – unmeasured non-household	0.2	5.0
Other trade debtors	12.7	5.4
Measured income accrual	111.7	98.6
Prepayments and other debtors	14.9	14.0
Trade creditors	(81.2)	(68.0)
Deferred income – customer advance receipts	(110.0)	(107.3)
Short-term capital creditors	(34.7)	(47.6)
Accruals and other creditors	(14.3)	(16.7)
Total working capital	32.6	1.8

7 Net debt analysis

Interest rate risk profile at 31 March 2009

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	(300.4)	-	(50.0)	(250.4)
Between one and two years	(2.5)	-	-	(2.5)
Between two and five years	(840.7)	(502.8)	-	(337.9)
Between five and twenty years	(1,808.6)	(451.7)	(195.1)	(1,161.8)
In more than twenty years	(2,248.5)	(1,621.2)	(85.0)	(542.3)
Total borrowings	(5,200.7)	(2,575.7)	(330.1)	(2,294.9)
Cash	227.2			
Short-term deposits	345.9			
Net debt	(4,627.6)			

Notes to the current cost financial statements continued

7 Net debt analysis continued

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)			

8 Current cost profit and loss account

	2009 £m	2008 £m
At beginning of the year	(252.0)	(114.7)
Loss for the year	(82.5)	(80.8)
	(334.5)	(195.5)
Actuarial losses recognised in the pension scheme	(15.7)	(81.9)
Movement on current tax relating to the actuarial loss in the pension scheme	1.0	5.4
Movement on deferred tax relating to the actuarial loss in the pension scheme	3.4	19.2
Impact of change in tax rate on deferred tax	-	0.8
At end of year	(345.8)	(252.0)

9 Movement on current cost reserve

	2009 £m	2008 £m
At beginning of the year	18,825.8	18,026.2
RPI adjustments:		
– Fixed assets	(86.7)	838.4
– Working capital	-	(2.1)
– Financing	0.8	(8.9)
– Grants and third-party contributions	2.9	(27.8)
At end of year	18,742.8	18,825.8

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

	2009 £m	2008 £m
Current cost operating profit	351.3	316.1
Working capital adjustment	-	(2.1)
Movement in working capital	(28.4)	(29.0)
Current cost depreciation	239.3	243.3
Current cost loss/(profit) on sale of fixed assets	0.4	(0.9)
Infrastructure renewals charge	75.0	72.0
Movement in provisions	(12.8)	(10.8)
Net cash inflow from operating activities	624.8	588.6

10 (b) Analysis of net debt

	1 April 2008 £m	Cash flows £m	Non-cash movements £m	31 March 2009 £m
Cash	65.5	161.7	-	227.2
Deposits and investments	263.2	82.7	-	345.9
Finance leases due within one year	(3.0)	2.9	(2.0)	(2.1)
Finance leases due after one year	(62.3)	-	2.1	(60.2)
Other debt due within one year	(288.1)	238.2	(248.4)	(298.3)
Other debt due after one year	(4,463.1)	(534.1)	157.1	(4,840.1)
	(4,487.8)	(48.6)	(91.2)	(4,627.6)

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)

	2009 £m
Opening RCV for the year	5,074.6
Capital expenditure (excluding IRE)	324.4
Infrastructure renewals expenditure (IRE)	60.6
Grants and contributions	(17.2)
Depreciation	(207.1)
Infrastructure renewals charge	(50.4)
Outperformance of regulatory assumptions (five years in arrears)	(32.3)
Closing RCV	5,152.6
Average RCV	5,198.3

RCV figures are extracted from those published by Ofwat on 21 April 2008 in their RD07/08 letter at 2007/08 prices. These have been indexed upwards to 2008/09 prices using an RPI factor of 211.3 / 212.1 (RPI at 31 March 2009 / RPI at 31 March 2008) to give the current year figures in the table excluding average RCV. The average RCV is derived by indexing the average RCV published in RD07/08 by the RPI factor of 214.8 / 208.6 (average RPI for the year ended 31 March 2009 / average RPI for the year ended 31 March 2008). The indices that have been used to inflate the RCVs to 2008/09 prices have been extracted from those published by Ofwat on 14 May 2009 as per RD06/09.

Independent auditors' report

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

We have audited the Regulatory Accounts of Anglian Water Services Limited ("the Company") on pages 88 to 111 which comprise:

- The regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical statement of total recognised gains and losses and the historical cost reconciliation between statutory accounts 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 Company's Instrument of Appointment 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 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. 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 86.

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".

Independent auditors' report

continued

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 99 to 111 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 operating and financial review, the notes on regulatory information, and the additional information required by the 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 Auditing Standards.

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 88 to 90 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 108.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2009 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSR and the accounting policies set out on pages 102 and 103, the state of the Company's affairs at 31 March 2009 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 WSR;
- c) The regulatory historical cost accounting statements on pages 88 to 90 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 WSR;
- d) The regulatory current cost accounting statements on pages 99 to 111 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 WSR.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

18 June 2009

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 sewerage 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 $RPI + \text{or} - 'K' + 'U'$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and 'U' is the amount of 'K' not taken up by a company in previous years.

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

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

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

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

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

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

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

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

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

Reporter – The Reporter to Ofwat is a named individual and independent professional appointed by the company to act as a commentator and certifier on its regulated activities, in accordance with the company's licensing condition.

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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