Anglian Water Services Limited
(Registered number 2366656)

Annual report and
financial statements

For the year ended
31 March 2010

Maggi Hambling CBE, Summer wave tunnel, 2010, *oil on canvas 67 x 54 inches*

anglianwater co uk
Annual Report and Accounts 2010

Our £116 million investment at Rutland Water is our largest project since privatisation. The Wing expansion scheme is pivotal to supporting growth in our region and combines facilities for the abstraction and treatment of drinking water with the creation of additional wildlife habitats at the reservoir

Successful end to Asset Management Plan period 2005/10 (AMP4)

- Recognised and rewarded for sustained exceptional performance throughout AMP4 in Ofwat's Overall Performance Assessment of water and wastewater companies
- Completed our AMP4 capital programme, including our biggest project since privatisation, the Wing expansion scheme at Rutland Water
- Improved customer service, performance and efficiency, while serving a growing customer base

Photo Rutland Water

Investment

In the last five years we've invested around £2 billion in our region

Contents

Our cover image shows Maggi Hambling's painting *Summer wave tunnel, 2010*

Maggi Hambling CBE is one of Britain's best-known contemporary artists and *Summer wave tunnel, 2010* is one of a series of new large-scale paintings shown in her 2010 exhibition 'The Wave' at Cambridge's Fitzwilliam Museum

We were proud to sponsor the exhibition's public education programme and are delighted that Maggi Hambling has kindly given permission for us to use her interpretation of the elemental power, grandeur and beauty of water as the cover image for our 2010 Annual Report

Maggi Hambling not only paints the sea, but is personally concerned and informed on issues that are critical to the success of our business A resident of Suffolk, she sees at first hand the impact of climate change on the coast, where flood risk and erosion are challenges central to our strategic objectives With water meadows as part of her Suffolk home, she shares our interest in the protection and conservation of wetlands in our region

Developing and maintaining productive relationships with other high-profile advocates active in public life plays a key role in the success of our business

Photo Artist Maggi Hambling CBE with *Summer wave tunnel 2010* at the opening of her exhibition The Wave', Fitzwilliam Museum, Cambridge April–August 2010

Sir David Attenborough laid the foundation for our Wing expansion project See page 38

Rt Hon Hilary Benn MP, then Secretary of State for Environment, Food and Rural Affairs recognised our work on tackling climate change See page 23

Nick Herbert MP, then Shadow Secretary of State for Environment, Food and Rural Affairs launched our state-of-the-art, energy-efficient water treatment works See page 21

We play a leading role in the Prince of Wales's Corporate Leaders Group for Climate Change See page 20

Our expert panels are a valuable partnership with influential businesses, public sector organisations and universities across our region See page 24

Chairman's welcome

By any standards this has been a year of challenge and change Our business and our customers have felt the impact of the most severe economic downturn in decades

We have transitioned from one five-year business cycle and entered the next Having presented a robust and realistic business plan to our economic regulator Ofwat, pricing limits and levels of investment were determined, providing us with a challenging economic framework for the next five years

Our region has experienced its most severe winter weather for nearly 30 years which has tested staff, equipment and the resilience of our assets to successfully maintain essential services to customers

And during the year, as part of a planned succession programme, Jonson Cox relinquished his role as Chief Executive Officer Since 2004, he led the company successfully through a period of significant transformation, and we are grateful for the vision and leadership he brought to the business In January 2010, Peter Simpson, previously Chief Operating Officer of Anglian Water, was appointed Managing Director

Throughout, the company has demonstrated just how resilient and capable it is in facing up to tough challenges, while adapting to the fast-moving public policy and external environment

We end the year in a strong position Our finances are sound, we have the right management team in place, our uncompromising focus is on high-quality customer service, and our plans for the future are realistic and ambitious

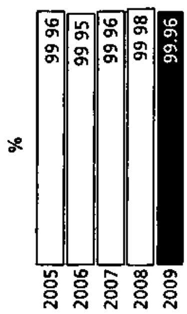
We want to continue to be a leader in our field and to push at the boundaries of what it means to be a successful water company in the 21st century This Annual Report demonstrates why we can look to the future with confidence

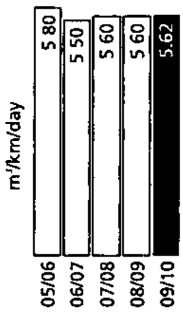
Sir Adrian Montague CBE, Chairman

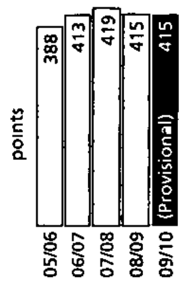
Key performance indicators

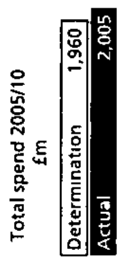
	Operational			Financial
Measure	**Drinking water quality**[1]	**Leakage**[2]	**Overall Performance Assessment (OPA) results**	**Capital expenditure £m**[3]
How we define it	Our 'mean zonal compliance' performance in the calendar year against the required standards	Cubic metres of water lost per kilometre of main per day	Ofwat's mix of customer-related measures	Total spend from 1 April 2005 to 31 March 2010, increased by construction-related inflation
How it relates to our strategy	One of our fundamental public service goals	Minimising leaks is vital in a dry region and improves efficiency	Measures our operational performance against the rest of the industry	Total investment delivered in this five-year asset management period

Our performance









2009/10 performance

Drinking water quality	Leakage	OPA results	Capital expenditure
Slight reduction due to increased monitoring for certain pesticides	We met leakage target despite severe weather Industry average 2008/09 10 80 m³/km/day	Confirms our leading position	Capital investment plan for AMP4 completed Includes c £40 million unfunded expenditure

[1] Drinking water results published in 2010 for the 2009 calendar year measured as mean zonal compliance with the regulatory quality standards
[2] Lost water from leaks in our network and our customers' own pipes 2009/10 result subject to formal confirmation from Ofwat in autumn 2010
[3] Cumulative spend from 1 April 2005 to 31 March 2010 inflated by Construction Outputs Price Index (COPI) to the year of spend (and by RPI thereafter to 2009/10 prices)
[4] For the appointed and non-appointed businesses
[5] For more information see **www hse gov uk** or **www chaspi info-exchange com**

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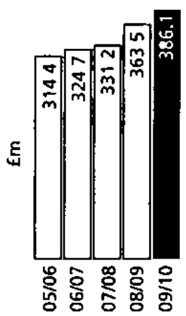
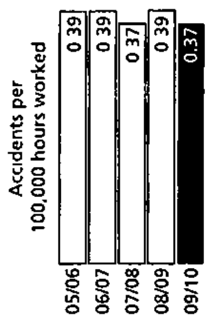
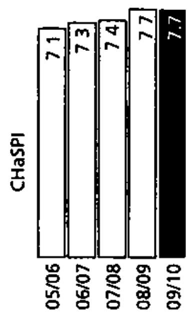
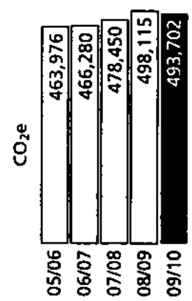
Financial	Employees		Environmental
Measure			
Operating expenditure £m[4]	**Accident frequency rate**	**CHaSPI[5]**	**Carbon footprint[6]**
How we define it			
Operating costs (excluding depreciation and exceptional operating costs) incurred during the year	Number of accidents per 100,000 hours worked	The Health and Safety Executive (HSE) corporate performance index Scored out of 10	CO_2 emissions equivalent in tonnes CO_2e
How it relates to our strategy			
The cost of running Anglian Water operations and achieving our objectives	Indicates how safely we work	Aims to help assess how well an organisation manages its risks and responsibilities towards its workers, the public and other stakeholders	Measuring our impact on the climate
Our performance			
			
2009/10 performance			
Up by 6 2 per cent on previous year Includes a £13 5 million increase in bad debt charge	Our target is 0 34 We are reducing the number and severity of accidents	We are the only water company to publicly report Occupational Health and Safety this way	Our focus on energy efficiency and the commissioning of new renewable energy generation has helped in reducing our carbon footprint by one per cent against the previous year

[6] The carbon footprint data has been restated to the latest emission factors and Defra guidance for measuring and reporting greenhouse gas emissions (September 2009) The stepped increase from 2007/08 onwards is attributable to more robust data collection for fuel and transport use and the construction and commissioning of additional assets

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Managing Director's statement

The last 12 months have been particularly challenging for Anglian Water The recession, which has affected both customers and our business, was compounded by the worst winter weather for 30 years

However, a focus on forward planning and finding further efficiencies within the business allowed us to deliver a strong set of financial and operational results

That we've achieved this performance in such challenging conditions is due in no small part to the considerable efforts of the team here at Anglian Water, allied with effective partnership working with our contractors and supply chain I'd like to take this opportunity to thank everyone involved for their commitment, professionalism and pride in a job well done

I'm particularly pleased that, despite the weather conditions

- For the ninth year in succession, we have once again met our demanding targets on reducing leakage
- We achieved 100 per cent compliance at our wastewater treatment works[1]
- Our focus on service improvement has brought excellent results 85 per cent of customers are satisfied or very satisfied with our levels of service Written complaints are down by 28 per cent

This year marks the end of the five-year investment period 2005/10 (AMP4) We are one of the few water and wastewater companies to be recognised and rewarded by Ofwat for sustained exceptional performance throughout 2005/10

Over the next five years we will invest over £2 billion in the region to tackle the increasingly tough challenges of climate change and growth We will increase our efficiency and drive further customer service improvements At the same time we'll also reduce the average bill for customers by £28[2] in total by 2015 A very challenging task, but one that we are confident we can deliver

Peter Simpson, Managing Director

[1] With Water Resources Act Look-up Tables limits
[2] 2009/10 prices

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Playing a vital role in our region

Our services are at the heart of every single family and community in our region.

Delivering today while planning for long-term growth

Our services are at the heart of every single family and community in our region We provide safe drinking water and effective, efficient wastewater services

Safe and secure supplies in the future depend on long-term planning Our region's population is growing fast Although the recession has slowed housing development, the economy here is still relatively strong The region is one of the top three high performers in the UK To keep it that way we have a leading role to play in helping to attract and keep top talent and high-achieving businesses in the area

Safe, world-class drinking water

We borrow water from the environment, store it and treat it to world-class standards to supply safe drinking water to 4 3 million customers in towns and villages from Grimsby in the north east of our region to Milton Keynes at its south-western tip

There's more detailed information on our overall compliance with regulatory standards and our investment in drinking water on page 28 Our Drinking Water Quality Report is published annually and is available on our website

> Our £100 million drinking water quality programme is vital to delivering over 1 1 million litres of water every day

Photo Briony Tuthill, Collection Manager, Bedford Wastewater Treatment Works

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The map shows our sources of supply and the services we and other water companies provide

1 Severn Trent Water
2 Thames Water
3 Cambridge Water
4 Veolia Water Central
5 Essex and Suffolk Water
6 Veolia Water East

■ Water services only
□ Wastewater services only
□ Water and wastewater services
• Groundwater supply

Wastewater network

Every day our customers flush around one billion litres of wastewater down toilets and drains into our wastewater network Around 2 5 million homes and businesses in our region rely on us to safeguard their health and protect the environment where we all live and work

The wastewater is collected and treated and returned to the environment through rivers and coastal outlets The water is sampled regularly and tested against strict Environment Agency standards

We treat and make safe the organic solids – sludge – which is in demand from farmers for use as a soil conditioner called Nutri-Bio In 2009/10 we completed two new advanced anaerobic sludge digestion plants at Great Billing in Northampton and Whitlingham in Norfolk

Sparkling water and green open spaces

There's a growing role for us too in the wider well-being of the region, with millions of visitors annually enjoying the open spaces, exhilarating outdoor pursuits and flourishing wildlife habitats our water parks and reservoirs have to offer

Protecting biodiversity

We also play a leading and vital part in protecting the biodiversity of our region's distinctive environment, with a special responsibility for the health not only of people, but of the environment where we all live and work

Find out more at
www anglianwater.co uk

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Our ownership and structure

Anglian Water Services Limited (AWS) is the principal subsidiary of Anglian Water Group Limited (AWG) The AWG board consists of six investor representatives, the AWS Managing Director, the Managing Director, Finance & Non-Regulated Business and a Non-Executive Chairman

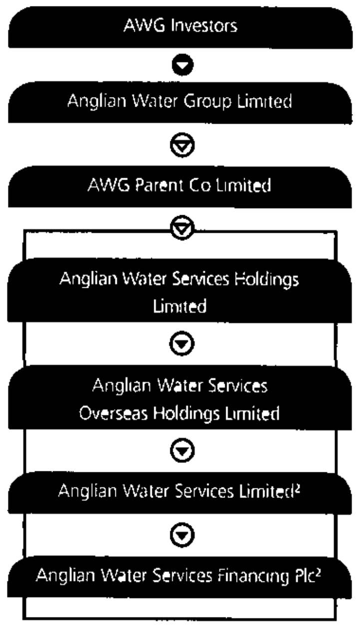
The company is owned by a consortium of investors

% ownership	32 3%	32 9%	19 8%	15 0%
Origin	Australia	Canada	Australia	UK
Assets[1]	A$145 2 billion	C$127 6 billion	A$22 7 billion	£9 6 billion
Description	Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group	CPP Investment Board is an investment management firm established to invest funds received from the Canada Pension Plan	IFM International Infrastructure Wholesale Trust is a fund that holds investments in international infrastructure assets Ultimately owned by Members Equity Bank Pty Ltd	3i is an international leader in private equity, focussed on buyouts, growth capital and infrastructure in Europe, North America and Asia

[1] Assets under management at 31 March 2010

Anglian Water Plc was first listed on the London Stock Exchange in 1989 when the water industry in England and Wales was privatised In 2000, it became AWG Plc In 2006, following its acquisition by the current shareholders it was de-listed and has since changed its name to AWG Parent Co Limited

Anglian Water ownership structure



Anglian Water Services Financing Group (AWSFG)
Direct subsidiary
Indirect subsidiary

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

Leading Anglian Water

The Anglian Water Services Board of Directors
Back row (L–R) Scott Longhurst, Robert Napier, John Watkinson, Christopher Garnett, Chris Newsome
Front row (L–R) Peter Simpson, Sir Adrian Montague Jean Spencer

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

At the same time, Sir Adrian Montague, CBE, Chairman of parent company AWG, was appointed Chairman and a Director of AWS The AWS board of Directors consists of the Chairman, Sir Adrian Montague, four Executive Directors Peter Simpson, Scott Longhurst, Chris Newsome and Jean Spencer, and three independent Non-Executive Directors John Watkinson, Robert Napier and Christopher Garnett

The Chairman and two of the Executive Directors – AWS Managing Director Peter Simpson and Scott Longhurst, Managing Director, Finance & Non-Regulated Business – are also Directors of the ultimate parent company, AWG

The Directors of AWS all served throughout the year, with the exception of the Chairman who was appointed on 29 January 2010 and Jonson Cox who resigned on the same day Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome also sit on Anglian Water's Management board which works closely with the AWS board to develop, review and implement our long-term strategic direction

Management board members are

Peter Simpson, Managing Director
Scott Longhurst, Managing Director, Finance & Non-Regulated Business
Mark Anderson, Director of Finance
Chris Boucher, Director of Information Services
Richard Boucher, Head of Business Change
Paul Gibbs, Director of Wastewater and Operational Management Centre (OMC)
Kate Kelly, HR Director
Chris Newsome, Director Asset Management
Martyn Oakley, Customer Services Director
Mark Pendlington, Director of Corporate Affairs
Claire Russell, Legal Director
Jean Spencer, Director of Regulation
Paul Valleley, Director of Water Services

Financing our business in 2009/10

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 80 per cent of Anglian Water's regulatory capital value as at March 2010

The debt-funding structure was established in 2002 and has resulted in Anglian Water's capital costs being consistently lower than the industry average, resulting in lower bills for our customers

At 31 March 2010 Anglian Water Services Limited (AWS) had net borrowings of £4,355 2 million, an increase of £67 8 million over the previous year Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,032 2 million and cash and deposits of £677 0 million The increased net borrowings comprise a net decrease of £236 3 million in cash and deposits (which causes net debt to increase), partly offset by a decrease of £168 5 million in loans and associated costs

Through its financing subsidiary Anglian Water Services Financing plc (AWSF), AWS raised £200 0 million (before debt issue costs) in 2009/10, of which £100 0 million was at fixed rates and £100 0 million was index-linked A further £4 6 million was raised by Anglian Water Services in 2009/10 through a new finance lease at fixed rates The new funding is used largely to finance the capital programme and repay existing debt

Following the unprecedented falls in interest rates and inflation levels in late 2008 and into 2009, as a precautionary measure Osprey Holdco Limited (a wholly owned subsidiary of the ultimate holding company) provided £90 0 million of additional funding to Anglian Water in March 2009 This took the form of a subordinated loan, and allowed us to improve headroom in near-term covenants at a time when the outlook for the Retail Price Index (RPI) was so uncertain

Four months later, in July 2009, pressure on near-term covenants had significantly reduced and we repaid this loan in full The board continues to monitor levels of inflation closely

Our regulators

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

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

The water industry operates on five-yearly regulatory business 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 business plans In November 2009, Ofwat issued its Final Determinations to water and wastewater companies, setting prices for the period 2010/2015 These came into effect on 1 April 2010

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

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

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

We have strong working relationships with a range of Government departments and other organisations

Competition in the water industry

The competition framework is currently under review We support the introduction of competition where there are clear benefits to customers, and we are playing an active role in the consultation process

We were involved in both the Cave Review (2008) of competition and innovation and the Walker Review (2009) on charging for household water and wastewater services We are now members of the Market Reform and Finance Forum, a group chaired by Defra and comprising representatives from Government, regulators, the Shareholder Executive and the water and wastewater companies There's more on how we anticipate the competition framework might change in the future on page 51

The current competition framework

There are currently two limited forms of competition in the water industry *inset appointments* and *water supply licensing*

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

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

Water supply licensing allows customers who use over 50 megalitres of water a year to choose their water supplier, who would in turn purchase the water in bulk from us To date, only one customer has switched to another supplier Wastewater services are not included in this arrangement

There is more on anticipated changes to the regulatory framework over the next five years on page 51

www ofwat gov uk

www dwi gov uk

www environment-agency gov uk

www ccwater org uk

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Delivering our strategic priorities

6.1 million

Our 6 1 million customers put us at the heart of the communities we serve

We prioritise our investment, operations and planning to provide a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price

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Meet the challenge of climate change

Invest £5 million over the next five years in flood protection for our most vulnerable sites, and increase our capacity to generate renewable power Page 18

Plan and invest for growth

Our biggest project since privatisation was completed at Rutland Water early in 2010 Page 24

Increase the resilience and reliability of our water and wastewater services

During the last five years, we've invested around £2 billion[1] in our services across the region Page 27

Secure and conserve water resources

66 per cent of our domestic customers already have a meter, making us a UK leader Our target is 80 per cent by 2015 Page 30

Keep bills affordable

Our customers' bills will fall on average by £28[1] over the next five years Page 35

Improve the environment in our region

Our performance on reducing pollution this year demonstrates our strong commitment to avoiding and further reducing pollution incidents Page 38

Improve our efficiency and flexibility

We are the only water and wastewater company in the UK to achieve BS 25999[2] certification for Business Continuity Management Page 40

Photo Construction phase, Wing expansion scheme, Rutland Water

[1] At 2009/10 prices
[2] The British Standards Institution BS 25999 standard specifies requirements for implementing operating and improving a documented Business Continuity Management System For more information go to www bsigroup com

Meet the challenge of climate change

Climate change is one of the biggest threats to our business We're taking action to protect our customers, our assets and the environment from irreparable damage by both flood and water scarcity in our low-lying, dry region

Projections 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 water levels in those reservoirs

At the same time, hotter, drier weather coupled with anticipated high population growth in our region will significantly increase demand This pressure on supply and increased demand represents a risk to one of our customers' most important priorities – an unrestricted supply of water

Taking a proactive strategic approach

adaptation

- Leading on climate change policy, regionally, nationally and internationally
- Protecting our most important assets from flooding
- Managing demand effectively in our fast-growing region
- Encouraging our domestic and business customers to use water efficiently
- Protecting ecologically sensitive watercourses

mitigation

- Reducing our reliance on grid electricity
- Managing and reducing our operational and embodied carbon emissions in new assets we build
- Increasing our use of renewable energy

Flat

Much of our region is typically low-lying, with the increased risk of flooding that brings And with little help from gravity, we rely heavily on electricity to pump water and wastewater into treatment and supply

Vital habitats

Land and reservoirs we own are home to internationally important wildlife habitats for hundreds of species, including wildflowers, insects, birds and mammals We have a responsibility to the many Sites of Special Scientific Interest in our region

Flood risk: Investing £5 million for a rainy day

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

For the first time ever, Ofwat's Final Determination (issued in November 2009) recognised the threat flooding poses to our major assets As a result we've secured £5 million over the next five years to invest in flood protection for 20 sites most at risk and critical to water supply across our region More than a million customers will benefit from increased security of their water supply At some sites protection could be as simple as raising electrical panels out of harm's way We'll safeguard other sites with permanent or temporary flood barriers

We will always plan for the most sustainable solution to risks at our sites For example, this could mean creating water meadows in surrounding land to offer more effective protection than building a physical barrier

Tackling climate change – leading by example

The Department for the Environment, Food & Rural Affairs (Defra) recognised our work on the UK Climate Change Projections (UKCP09) and invited us to give a presentation at the launch of this leading-edge science to help illustrate how business can use this data to respond and prepare for the challenge of climate change

Defra also invited us to work closely with them on gaining a better understanding of how businesses in key sectors across the UK are responding to the challenge of climate change

Under the Adaptation Reporting Power contained in the 2008 Climate Change Act over 100 organisations are required to submit reports to the Secretary of State for the Environment We contributed to the formulation of the policy and the statutory guidance Defra will provide to these organisations and businesses We will submit our own climate change risk assessment to Defra by the end of January 2011

East of England Change in Mean Annual Temperature in degrees C

Leadership

We believe in aiming high Winning engagement at the highest level is critical to achieving internationally agreed targets on climate change Ensuring adaptation measures are properly funded is vital too

As a leading member of the Prince of Wales's Corporate Leaders Group (CLG) for Climate Change, our former Chief Executive, Jonson Cox, was with the Prince of Wales at the launch of the CLG's Copenhagen Communique in July 2009 We were among the first of 960 businesses worldwide to endorse the Communique, which set out the business case for an ambitious, robust and effective UN framework on climate change

Peter Simpson, our Managing Director, continues this commitment to advocacy at the highest level He joins other business leaders from major UK, EU and international companies in the CLG who share his commitment to developing new and longer-term policies for tackling climate change

Think energy
It's important to engage and involve our people in being energy efficient We're revitalising our successful Think Energy campaign in 2010/11

Climate Change Charter
Another practical demonstration of our commitment to tackling climate change is our Climate Change Charter

Managing Director Peter Simpson signed the charter, witnessed by Nick Herbert MP (below left), then Shadow Secretary of State for the Environment, Food and Rural Affairs, at the formal commissioning of our new state-of-the-art energy-efficient water treatment works at Wing in Rutland in March 2010 (right)

In the charter, we promise to
- become the most water-efficient region in the UK
- be innovative and develop more sustainable ways of working
- encourage employees and customers to take action on climate change
- embed climate change mitigation and adaptation into decision-making processes

Reducing our carbon footprint and our energy costs

Energy

Since 2005, we've made significant progress in cutting our electricity use and in the measurement of carbon emissions

Our energy efficiency programme is now in its fourth year and is bringing significant reductions in power consumption We set out to save £10 million in energy costs by 2009/10 In fact, in the last four years we've achieved savings of £11 6 million

This year for example, we optimised the aeration plant and processes at our Pyewipe wastewater treatment works to deliver a saving of £100,000

We cut our overall electricity use for the fourth year running, using 717 GWh in 2009/10 (2008/09 731 GWh) Savings in electricity from our energy initiative amounted to 9 GWh or 5,000 tonnes of CO_2e

Managing to minimise costs

We actively manage our power consumption to minimise costs, where operationally possible, by scheduling our energy usage to optimise benefits from our energy tariffs This also reduces our impact on the National Grid at times of heavy demand

Another priority is to automatically monitor our power consumption, making sure we are only paying for energy we are actually using Smart meters give us the information we need to do this and over the year we've installed 422 meters on our sites, with plans to install 2,000 more in the next 12 months

Generating our own renewable power

We have again increased our capacity to generate renewable power In 2009/10 we generated over 27 GWh (2008/09 23 GWh) Capacity will be increased year-on-year, and we plan to be generating over 87 GWh by the end of 2014/15

This year we installed three new Combined Heat and Power (CHP) engines at Great Billing wastewater treatment works in line with our plans to expand our fleet of CHP engines over the next five years

Some of our sites are self-sufficient At our wastewater treatment site at King's Lynn CHP engines generate one megawatt hour of power for each tonne of dry solids treated, producing enough energy to power the whole site and export some renewable power too

Carbon· Ambitious targets and innovative solutions

By 2015 we are targeting stabilisation of our gross operational carbon footprint from a 2010 baseline This will be achieved through delivery of energy efficiency projects via the energy initiative, mitigating operational carbon increases within the capital delivery programmes and optimising renewable energy generation

Our second carbon target is to halve the embodied carbon impacts of new assets built in 2015 from forecasts calculated within our Final Business Plan

Innovative solutions to the carbon mitigation challenge

Our £4 million low-carbon, aerated-facultative wastewater treatment lagoon in the Lincolnshire village of Sutton St James is the first of its kind in public use in England

The works were constructed with significantly lower embodied carbon emissions than traditional designs, and made use of recycled materials where appropriate

Photo Rt Hon Hilary Benn MP (centre) with Paul Gibbs, Director of Wastewater and OMC

Renewable energy technologies also reduce operational carbon emissions against conventional energy-intensive treatment processes

Opening this innovative, energy-saving and low-carbon wastewater treatment system in May 2009, the then Secretary of State for Environment, Food and Rural Affairs, Rt Hon Hilary Benn MP (pictured above centre) said, "This method of treatment has a low carbon footprint with no smell and energy costs of around £3 a day It's important in showing us how we can combat climate change "

We are continuing our investment in cost-effective and sustainable wastewater treatment solutions, and have four more sites in development

Our Community and Environment Report is at **www.anglianwater.co uk/ corporate-responsibility**

Plan and invest for growth

We play a major role supporting economic development and housing growth in our region Providing robust water and wastewater infrastructure strategies to support sustainable growth is a key priority for us

Working with others on planning for growth

We want to be known for contributing to constructive relationships with a wide range of individuals and organisations supporting growth and development at local, regional and national level These include MEPs, MPs, councillors, Government departments, local and regional authorities, community leaders, regulatory bodies and groups representing interests from consumer protection to biodiversity

We also draw on the experience and expertise of people who lead businesses, charities, public sector organisations and universities throughout our region They come together in five expert panels to consider issues including growth, climate change, environment and customer service Their involvement is invaluable, helping to inform future strategies and our work to continuously improve our day-to-day operations

Existing long-term predictions[1] are that up to a million new homes could be built in our region in the next 25 years Current economic conditions have slowed the rate of house building in the short term, but we anticipate that many planned developments will go ahead when the outlook improves

However, changes to the political landscape following the General Election of May 2010 could result in a reassessment of current planning policy This may include the potential for the abolition of national and regional housing targets and the regional planning system We are monitoring developments carefully

During AMP4 we delivered our biggest project since privatisation, with a £116 million investment at Rutland Water ensuring security and resilience of drinking water supplies into the future See page 25

Our Final Business Plan for 2010/15 includes options for increasing water resources, transferring water between supply zones within our region and also reinforcement of our wastewater assets to cater for new development without compromising environmental water quality

[1] AW/Regional Assembly forecasts

Largest
We cover 27,500 square kilometres That's close to 20 per cent of the area of England and Wales

The total number of new connections we made this year was only 60 per cent of our normal annual level Since 2005, though, new connections have exceeded the assumptions Ofwat made at the start of AMP4

"The panels are a fantastic forum to bring together a diverse range of organisations to influence Anglian Water's planning, share ideas and promote collaborative working "
Richard Tunnicliffe, Regional Director, CBI and Chair of our business customer expert opinion panel

Chairman's welcome
Key performance indicators
Managing Director's statement
Playing a vital role in our region
Delivering our strategic priorities
Who we are
Looking ahead to AMP5

Investing £116 million to meet future demand

We completed our £116 million investment at Rutland Water in March 2010, delivering our Wing expansion scheme This project is pivotal to supporting growth for the south and east Midlands and combines facilities for the abstraction and treatment of drinking water with the creation of additional wildlife habitats at the reservoir

A key element is the new state-of-the-art treatment works at Morcott, close to Rutland Water It was commissioned in March 2010, and in May 2010 the first water was put into supply for customers in Peterborough and the surrounding area Morcott can produce up to 90 megalitres of drinking water every day and will eventually also serve customers in Corby, Kettering and as far south as Milton Keynes

The Wing project also involved creating a new pumping station at Empingham, and upgrading other parts of the existing supply system Forty two kilometres of new water main now run underground along a route from Rutland Water to Corby, Kettering and beyond We've taken care this pipeline skirts carefully around several valuable wildlife habitats and archaeological sites along the way

Awards for innovation and partnership at Wing

In May 2010 the Water Industry Achievement Awards recognised us as the **Partnership Initiative of the Year** for excellence in bringing all the Wing project partners (Anglian Water, Mott MacDonald, JN Bentley, Carillion and GTM) together to achieve outstanding results

Our project at Wing also won the **Outstanding Innovation Award** Sponsored by Ofwat, this prestigious award is given for the most significant new contribution to the water industry delivering real benefits for customers

Innovation was critical to the success of Wing, contributing to driving down costs and to managing or avoiding risks as we pioneered new ways of working with our major contractors Together we achieved a 15 per cent reduction in the total cost, with collaborative working driving safety, value and quality

We plan to invest £588 million over the next five years on meeting the needs of our growing region This includes a new £50 million water treatment works in Lincolnshire and £12 million supporting growing industrial demand on South Humberside

Business Review
Financial Performance
Directors' Report
Statutory Accounts
Regulatory Accounts

Water for leisure and recreation

Our 10 waterparks welcome over two million visitors every year who enjoy themselves on, in or around the water Thousands more bird and wildlife watchers come along to our sites across the region

With activities from fishing to sailing, climbing and osprey-spotting, we're a leading provider of the public open space that's absolutely vital to the well-being of the families and communities in our growing region

Rutland Water, Grafham Water and Pitsford Reservoir are all Sites of Special Scientific Interest We're not just supplying our customers and their families with safe drinking water into the future, we're protecting the biodiversity essential to the quality of life in our region

South Humber Gateway is growing fast

Despite the general uncertainty in the economy, our business customers in the South Humber Gateway are planning for growth, and we're working with them on demand forecasting that will help to ensure the resilience of water supplies in the future

Our business team has built strong working relationships with a number of stakeholder groups including Yorkshire Forward (the regional development agency), North Lincolnshire and North East Lincolnshire councils The team aligns quarterly growth forecasts with water resources and asset management plans to ensure supply meets demand

Photo Glenn Smith Business Development Manager, Business Customer Services

Increase the resilience and reliability of our water and wastewater services

During the last five years we've invested around £2 billion[1] in our region, including around £40 million more than Ofwat required to improve resilience and reliability of supply

Our region
We have 1,250 water and wastewater treatment works – around a quarter of all those in England and Wales

And we're responsible for

- 81,000 kilometres of water and wastewater pipes
- 18 reservoirs
- 218 boreholes

Slow-moving rivers
Water moves slowly across our flat landscape Fragile river eco-systems can easily be damaged by excess nutrients from fertilisers and pesticides Our treatment processes remove chemicals and pesticides that can enter watercourses from agricultural land We also remove specific nutrients, such as phosphorus, at our wastewater treatment works

The number of written complaints on service delivery failures has fallen by 28 per cent this year
We've achieved this by a strong focus on delivering to our Levels of Service standards We take pride in keeping our promises to customers, and the Customer Services team holds regular complaint workshops with colleagues in water and wastewater, looking for the root causes of any problems We identify preventative measures and take action We also try to sort out complaints more quickly – contacting customers by telephone rather than in writing There's more on customer service on page 40

Photo Our Lincoln contact centre

[1] At 2009/10 prices

Drinking water quality

Drinking water quality is reported in calendar years, and our record on drinking water quality standards remained excellent in 2009, with overall compliance of 99 96 per cent (2008 99 98) The slight reduction from 2008 is due in part to the introduction of regulatory sampling for the pesticides metaldehyde and clopyralid in 2009

Our new state-of-the-art water treatment works associated with the Wing scheme at Rutland Water was commissioned early in 2010 Five new nitrate reduction schemes completed our drinking water quality programme for 2005/10 ahead of schedule

We've invested almost £100 million since 2005 in new water treatment processes targeting nitrate and also pesticides to make sure that our drinking water meets strict regulatory standards We will invest £123 million more in drinking water quality enhancement by 2015 Initiatives include a new water treatment works for customers in Suffolk and equipping other works in our region to reduce levels of pesticides, nitrate, nickel and selenium and to treat *Cryptosporidium*

We'll also be working with a wide range of other agencies in our region, including the agricultural community and owners of buildings, tackling issues such as pesticides and nitrate in water sources and lead piping in pre-1970s buildings

Investing in our performance on wastewater

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 penalises companies failing to keep them at a 'stable' level This year our water and wastewater assets continue as 'stable'

Improving serviceability for both above- and below-ground wastewater assets has been a priority during AMP4 We've invested £597 million[1] in our sewer replacement programme and on wastewater treatment works compliance

100 per cent wastewater compliance

Since 2007 this investment has brought significantly improved performance on meeting wastewater regulatory standards Our high levels of performance continue this year, with, in December 2009, 100 per cent compliance at our wastewater treatment works with WRA LUT[2] limits

Over the last five years, improved data on our infrastructure means we can prioritise sewer replacement schemes more effectively As a result we've steadily reduced the number of sewer collapses

Surface water is a big problem across the region, made worse by increasing numbers of storms and unpredictable rainfall patterns We work in partnership with the Environment Agency We also support local authority-led Flood Risk partnerships and Surface Water Management Plans funded by Defra at Norwich, Ipswich, Southend, Basildon and Northampton

[1] 2009/10 prices
[2] Water Resources Act Look-up Tables

Wastewater investment

This year we successfully completed delivery of our wastewater enhancement programme, completing first-time sewerage schemes at 16 locations This enabled 1,969 properties to connect to the public sewerage network for the first time

We completed our AMP4 sludge investment programme in 2009/10 with advanced anaerobic digestion plants at Great Billing (Northampton) and Whitlingham (Norwich) Processes at both sites use hydrolysis – enzymic at Great Billing and thermal at Whitlingham – to produce an enhanced product that complies with regulatory requirements

Fats, oils and grease

We're continuing our high-profile FOG campaign to reach domestic and business customers with the information they need to dispose of fats, oils and grease without putting at risk our wastewater network and the vital services we offer the community

A frequent cause of pollution incidents is blockages caused by the inappropriate use of the public sewer for the disposal of waste We regard this as underground fly-tipping, and it costs us in the region of £5 million every year

Photos Our Green Ladle Award rewards restaurants takeaways and other catering establishments for environmentally sound fat oil and grease disposal

Secure and conserve water resources

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

We're already playing a leading role in conserving the water resources of our region to protect our environment and secure water supplies into the future Although the population we serve has grown by 20 per cent, our successful demand management strategy means that we supply the same amount of water now – around 1 1 billion litres every day – as we did 20 years ago

In our water resource plans for the period 2010 to 2035 we set out to anticipate all the challenges to meeting future demand for water

We monitor and model available water resources against a range of testing scenarios so that we can plan ahead and take action to make sure of adequate supplies Our water resources are secure to meet forecast demands for summer 2010 We haven't had a hosepipe ban since 1991

As well as population growth we take into account the impact of climate change and the pressures increased demand has on the environment

Our priority is to get the balance right between meeting our customers' needs now and managing expectations about the availability of water in the future Our approach focuses on

- Minimising the amount of water lost through leakage
- Supporting water efficiency in our business and in our customers' homes and businesses
- Promoting and encouraging voluntary metering

Total rainfall in 2009/10 was only 613 mm

We're the driest region of the UK, with only two thirds of the average rainfall for England and Wales

For more information visit
www.anglianwater.co uk

We build water efficiency into our asset maintenance and capital investment programmes

We supply 1 1 billion litres of water every day – the same amount as in 1989 despite a 20 per cent increase in population

Minimising the amount of water lost through leakage

We have one of the best records for leakage control in the UK water industry, meeting all our AMP4 targets and with water loss figures at around half the industry average

In spite of the severe winter weather of 2009/10, we maintained our service levels and met our leakage target of 211 2 Ml/d

We achieve this high performance by ensuring our response and repair services remain excellent Our infrastructure network continues to be assessed as *stable*

Watertight – our promise

Around one third of the total water lost is due to leaks from customers' private pipes, so it's important that we work with customers to minimise overall leakage Our **Watertight** promise includes an offer to fix leaks in domestic customers' pipes on a one-off basis From April 2010, we're extending our service to business customers, not just finding, but also fixing leaks in a cost-saving, one-stop-shop approach

Business customers using high volumes of water want to control costs by identifying periods of high use as well as potential leaks

We can help them monitor daily consumption levels by installing data loggers The loggers record water consumption at 15-minute intervals, allowing customers to track usage on the internet

Using water wisely

In addition to our continued investment in minimising leakage, we vigorously promote metering and actively encourage all our customers to use water efficiently Switching customers to meters and retrofitting water-efficient devices are vital elements of our supply/demand investment plan for 2010/15 (AMP5)

We take our water efficiency message to our customers through our education programme and our *Optimiser* business support teams We also work with a range of partners throughout our region on water efficiency messages and initiatives, including water-only companies, energy companies, planning authorities and the Environment Agency This will continue to be a priority in AMP5

Meters save water, energy and money

We estimate customers with metered supplies save an average of £100 a year on their water bill and reduce their water consumption by between five and 15 per cent Customers on metered supply pay only for the water they use – not a drop more As well as making savings on water bills, by reducing the amount of water they heat, customers can also save on energy bills

66 per cent of our domestic customers already have a meter Our target is 80 per cent by 2015

That's amongst the highest proportion of metered customers of any major water company in England and Wales Our targets for the next five years are high, aiming for 80 per cent of our domestic customers to be on a metered supply by the end of AMP5

Our ambitious programme of free meter installation across the region will include trialling intelligent meters read remotely by radio signal at 11,300 properties in Colchester We'll also offer customers in the area display units so they can easily see just how much water they're using Once meters are installed, we offer customers who've decided to switch to a metered bill up to two years to track their water use and savings they have made We then give the option to return to an un-metered supply

Our website offers practical water saving tips and online purchase of water efficient items and plumbing fitments

For more information visit **www anglianwater.co uk**

Photo Reading meters

Meeting water efficiency targets

As part of our enhanced metering project in Ipswich, we conducted 856 household water audits and retrofitted water efficient devices including aerated showerheads and shower flow regulators in 760 households

Analysis of meter readings from 552 homes, across a range of household types, indicated that average daily water consumption has reduced by 41 5 litres (14 2 per cent) as a result

Retrofitting of such devices is a key part of our strategy to meet our AMP5 sustainable economic level water efficiency (SELWE) targets Over the next five years we'll be carrying out free water efficiency audits to help an additional 87,500 householders identify where they can make savings on the amount of water they use We'll find and fix leaks and our qualified plumbers will also retrofit water saving devices

Helping business customers be more water efficient

In the year 2009/10, our *Optimiser* teams helped business customers across the commercial, manufacturing and service sectors make significant water efficiency savings

- We carried out 225 water efficiency assessments at schools, hospitals, leisure centres and office buildings and identified 124,000 m³/year, or 0 34 megalitres per day (Ml/d) of potential water efficiency improvements
- 59 leakage detection surveys found total potential water savings of 1 89 Ml/d
- An *Optimiser* water efficiency study for a food manufacturer identified total potential daily water savings of 20,000 litres

Gold at the Environment Agency Water Efficiency Awards

We enjoyed success at the Environment Agency Water Efficiency Awards, as co-sponsors with Save-Water-Save-Money of the 'Same Difference Save Water Campaign', which won Gold

Our 'Water in the World' education programme claimed Bronze

42,288

This year we fitted 42,288 new meters

Heating water for showers and washing clothes accounts for around 25 per cent of the average household energy bill Encouraging customers to use water wisely helps them to save money, whether their supply is metered or not

A first in our region – cutting consumption from 135 litres to just 80 a day

New homes built to Level 5 of the Code for Sustainable Homes should help each person living there use just 80 litres of water a day

When water efficient appliances, fittings and processes are built into the design and construction of new homes, it's easier for families to cut their daily consumption of water without noticing it

We're working in partnership with Circle Anglia Housing Association, Hill Partnerships and Huntingdon District Council, supplying regulatory and technical expertise on a new development of 29 Level 5 homes in Huntingdon The new homes should be ready in summer 2010

Educating future generations to use water wisely

This year 35,000 young people experienced our award-winning education programme at our three purpose-built education centres or in our mobile centre Sessions are fun, but get across serious messages on using water wisely Our programme also encourages healthy lifestyles and promotes awareness of the environment and climate change

Early in 2010 our larger-than-life water super-hero Captain Splosh launched his own saving water song, written and performed by staff and children at a Cambridgeshire school

Our new education and environmental centre at Corby Wastewater Treatment Works in Northamptonshire opened this year Murals depicting the environment were created on the building and designed by a local artist and volunteers from a nearby school

Photo Community Education Manager Ellie Pluck with a class of schoolchildren at our education centre in Chelmsford

For more information visit
www anglianwater.co uk

Keep bills affordable

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

Ofwat announced its decision on pricing in its Final Determination in November 2009 following very detailed discussion and consultation about our five-year business plan As a result, our customers' bills will fall on average by £28[1] over the next five years

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

Cutting the cost for businesses

Businesses often find it quite a challenge to balance the conflicting pressures of reducing costs with minimising environmental impact, particularly in today's difficult economic conditions Our *Optimiser* team provides specialist technical advice to help our business customers become more water efficient and reduce costs

We're expanding our range of services to businesses over the coming year This includes strategic help with business continuity risk assessments and cost benefit analysis on rainwater harvesting We also help with the practicalities when the need arises, such as providing emergency supplies of bottled water

We're saving a Cambridgeshire business £20,000 a year

A food processing company based in Cambridgeshire asked our *Optimiser* team to investigate how they could reduce their Maximum Daily Demand (MDD) charge for water Although 90 per cent of the site's daily water usage was well below their agreed MDD, in June and July consumption increased by about 20 per cent The *Optimiser* team identified that just by installing a suitable control system on the existing water storage tank the company could reduce their MDD by six per cent, a saving of nearly £7,000 a year In addition, the team recommended a switch to a different tariff, bringing annual savings of more than £20,000

Lower bills

Our customers' bills will fall on average by £28[1] over the next five years

[1] 2009/10 prices

We offer a range of tariffs to meet our customers' needs

Our **WaterSure** and **AquaCare Plus** social tariffs are designed to help metered domestic customers who use large amounts of water for essential purposes

The **SoLow** tariff is for measured domestic customers who use less than 75 cubic metres of water a year There are no standing charges but a higher charge per cubic metre than our standard rate

"Having a water meter fitted has saved me money and when I phoned Anglian Water with an updated meter reading, I was told because I use less than 75 cubic metres of water in a year I could reduce my bill further by changing to the SoLow tariff."

Peterborough customer featured on our website

There's more information on tariffs and charges at

www anglianwater co uk

The challenge of debt in the economic downturn

One of the consequences of the economic downturn is an increase in the charge for bad debt, up by £13 5 million compared with the previous year A range of new debt management processes we're currently implementing will help us work effectively with our customers during difficult times

We want to help customers who find themselves in difficult financial circumstances, encouraging them to contact us sooner rather than later We offer a telephone helpline and work with them to agree a payment plan that meets their specific needs

Our *Back on Track* scheme helps customers who have been through a financially challenging time and built up arrears, but who are now in a position to start making regular repayments

The Anglian Water Assistance Fund offers further assistance to those experiencing genuine hardship In 2009/10 the Fund paid a total of around £0 4 million directly to customers who qualified for assistance

Debt recovery

We have a responsibility to all our customers to ensure we receive payment for the services we provide In cases of significant arrears, we need to identify and use the range of available debt recovery procedures as effectively as possible In January the Data Commissioner gave us approval to share data with credit reference agencies, such as Experian, and we have started to communicate this to our customers in privacy statements included in our bills

Leading on customer-friendly bills

To give customers a better understanding of their water and wastewater charges we trialled a new format full-colour bill on 780,000 customers in this year's annual billing

Our trial targeted households that currently don't have meters and included a pack of additional information with details on the benefits of opting for a metered supply and our water efficiency offers

We also took the opportunity to make customers aware of the different ways they can pay their bill with simple and convenient options we offer, including direct debit and e-billing

The Consumer Council for Water told us they liked our new bill and encourage our efforts to provide information on charges and tariffs in clear and accessible formats

93%

93 per cent of customers say our bills are easy to understand

Photo New bill format

Improve the environment in our region

Photo One of the eight lagoons created for wildlife at Rutland Water

Rutland Water

Rutland Water is home to the first ospreys to be re-introduced into England Internationally important numbers of gadwall and shoveller ducks also appreciate the watery environment we provide Rutland Water is a UK Site of Special Scientific Interest and also enjoys additional international protected status

We made sure that habitat protection for the wildlife on the reservoir was integral to our £116 million Wing expansion project To provide a safe haven for water fowl and protect wildlife from the effects of increased water abstraction, we created eight lagoons with independent water levels to the west of the reservoir Sir David Attenborough launched our project in April 2008, and it was completed early in 2010

Photo Sir David Attenborough with Managing Director Peter Simpson at the launch of our habitat protection project at Rutland Water

Our Community and Environment Report is at **www anglianwater co uk/ corporate-responsibility**

Returning wastewater to the environment

Treating wastewater before returning it to the environment is an essential part of what we do We work hard to comply with the standards set by the Environment Agency for discharges We do our best not just to meet those standards but to *exceed* them

Our performance on pollution this year demonstrates our strong commitment to avoiding and reducing pollution incidents We have driven the number of category one and two pollution incidents down from 10 in 2008 to eight in 2009

Bathing water quality

Bathing water results were very good for the Anglian Water region in 2009, in spite of the many storms that were a feature of the summer All 46 bathing waters in our region met the ***mandatory*** standards of the Bathing Water Regulations for the eighth year running (2008 46)

In addition, 35 bathing waters (76 1 per cent) also met the Regulations' more stringent ***guideline*** standards (2008 73 9 per cent)

Water quality at ***guideline*** level is one of the 32 requirements a beach must meet to be awarded Blue Flag status, which also considers a range of other environmental and amenity factors Application for Blue Flag status represents a considerable financial outlay and is at the discretion of individual resorts This year, for example, Felixstowe made the decision not to reapply for a Blue Flag

Based on the 2009 data, 15 beaches in our region will fly Blue Flags in 2010 (2009 17)

Special Scientific Interest

Around 20 per cent of the UK's Sites of Special Scientific Interest are in our region These, and many of our other environmentally designated sites, require special care Our Biodiversity Action Plan (BAP) shows how we are working to protect and improve the environment in our region

Photo Mike Drew, Biodiversity Action Plan scientist, rings birds to monitor populations on our sites

Photo Pool frog (BAP species and protected) reintroduced to Norfolk

Photo Volunteers adopt stretches of river in our RiverCare project They carry out regular litter picks and biodiversity checks

Improve our efficiency and flexibility

This year we've made real and sustained improvements in the levels of satisfaction expressed by our customers across the services we provide 85 per cent of surveyed customers say they are 'satisfied' or 'very satisfied'

This year's high Customer Service Index Score of 125 (2008/09 113) reflects the priority we place on meeting our customers' needs

Five years ago, in the first year of AMP4, we devised our own method for assessing the quality of our customer service performance The Customer Service Index (CSI) tracks how well we perform, with the emphasis on reducing the number of complaints, resolving complaints speedily and the even more rapid recovery of service failures

CSI levels of service were consistently above 90 per cent this year, up from 88 per cent to 92 per cent overall, year on year

We've also reduced written complaints by 28 per cent as a result of increased resourcing in our contact centre and an increased emphasis on first-time resolution

Between April and November 2009 we increased the level of customers rating our service as *'very satisfied'* by 24 percentage points

From next year, Ofwat is introducing a new measure of customer service performance, the Service Incentive Mechanism (SIM) We already have appropriate targets and procedures in place Importantly, we are monitoring progress by surveying nearly 40 times more customers a year than the new SIM measure requires

In November we amended our survey questions to align with the new SIM and continued to improve our ratings At the end of the year, over 85 per cent of all surveyed customers said they were *'satisfied'* or *'very satisfied'*

Working with the Consumer Council for Water to drive down complaints

This year we've focused on building a strong and productive working relationship with the Consumer Council for Water (CCW) that's already delivering significant benefits for our customers CCW is investigating 64 complaints against us this year, down from 149 in 2008/09

Just in case...
At the heart of everyday life in our communities, families and businesses depend on us.

This year we achieved the standard of BS 25999 specification for Business Continuity Management

We are the only water and wastewater company in the UK to achieve this certification, a key recommendation of the Pitt Review of flooding

If any part of our operation is hit with an emergency, from flu pandemic to fire, we have the procedures and processes in place to cope

An external agency conducts random surveys of our customers on our behalf, contacting between 500–600 customers every week and completing 31,000 customer satisfaction telephone surveys each year

Making savings, maintaining quality

We are committed to making sure that when customers contact us their queries are dealt with directly by Anglian Water front-office employees based in our own region This will continue to be the case

However, relocating some back-office customer-service processes off-shore can achieve valuable cost savings without any loss of service quality Following two pilot studies, we are planning to move some further back-office functions to a site in Kerala, Southern India

As vacancies arise, we will retrain and redeploy back-office staff currently in the UK to posts at contact centres in our region

Contacting us

We offer customers a variety of ways to get up-to-date information about the services we offer and to contact us about their own accounts, bills or repairs

Contact centres in Lincoln, Huntingdon and Hartlepool mean that our customers continue to deal directly with Anglian Water employees based in our region

www anglianwater.co uk

telephone our customer helpline 08457 91 91 55

Contact centre aims for very satisfied customers

The average length of employment for contact centre agents is approximately six years More than 50 employees in the contact centre have been with the company for over 10 years

Angella Shaw has been with us since 2006 and works at our Hartlepool contact centre

"On a normal day I take between 70 and 80 incoming calls Being able to confidently handle any query in a professional, friendly manner is so important

"It's really clear what we need to focus on – providing great service, reducing customer levels of debt and doing all we can to make sure payments are made "

Shaping the Future

Our Shaping the Future initiative is about making sure our working practices are as efficient as possible to meet our customers' needs and deliver value for money, and help keep bills low

We have agreed with our trade unions changes to staff hours, working practices and company policies which will make us more flexible and efficient For example, we are introducing new rosters so more staff are on duty at times of highest customer demand, and we are providing different equipment so one person can safely carry out tasks which previously took two people

Who we are

We're very proud of the vital role we play in the health and well-being of everyone in our region.

We owe the success of our AMP4 projects to the professionalism of our people Over the next five years achieving high levels of innovation, flexibility and service excellence will be essential to our business

Working for Anglian Water

Around 3,800 people work directly for Anglian Water Another 7,000 work for our contractors and partner organisations That makes us one of the largest employers in the region and an important part in the lives of many families

We believe it is vital to invest in our people We are proud to offer worthwhile jobs, good quality training, varied career opportunities and attractive pay and benefits

We owe the successful delivery of our AMP4 projects to the expertise and professionalism of colleagues across the business Looking ahead, we know that AMP5 will present unprecedented levels of challenge on efficiency, customer service, competition and water stewardship High levels of innovation, flexibility and service excellence will be essential

We will need to harness the skills, expertise and team work of every one of our 11,000 employees and partners We also need to make sure that the brightest and best talents see their future with us for the long term However, in common with every other business in the country, we need to do this while becoming more flexible and reducing our costs During the year we restructured our support functions and our Developer Services team, this resulted in 59 redundancies, with professional outplacement support to help people find new jobs outside Anglian Water We successfully redeployed some staff into existing vacancies within the company, which enabled us to keep redundancies to a minimum

We have recently reached agreement with our trade unions on plans to introduce more flexible and efficient working practices These changes will be implemented from summer 2010 and will allow us to deliver better service to customers at lower cost

Recognising contribution

This year our Business Excellence Awards once again recognised and rewarded some outstanding performances from our employees over a range of categories.

Our Employee of the Year is Richard Stirland (left) Richard has raised the profile of the Asset Data Management Centre around the business by giving excellent service when providing maps to colleagues at Anglian Water and the Alliance, our major contractors

Photo Richard Stirland, Geographic Information System and Data Technician, Asset Performance and Data Team

Involving our people

During the year we launched a new employee involvement forum called *Open House*, where employee representatives meet regularly with senior managers for open, two-way discussion about issues affecting the business and our plans and opportunities for the future

Open House works alongside our existing trade union representation to ensure the widest possible employee involvement We have held face-to-face briefing events with all our staff to share our new Five Year Plan

Employees can also benefit from the financial success of the company through our *Loyalty Savings Scheme*

Focus on talent

It's vital to our future that we bring new talent into our business

Peter is a Wastewater Craft Technician Trainee

"Like other people I expected just a simple process of providing and cleaning water However I was blown away when I found out what goes on to clean sewage I didn't realise how big the company is, the effects it has on the community, and just what Anglian Water provides to the environment

"If you want to get in the engineering trade, then I don't think there is a better company you could work for – they pay for all of your learning, provide all your tools and safety equipment, a van, and most of all, time and effort in making sure you do well The job is so widespread, you learn so many trades within one trade "

Claire joined our Graduate Programme with a degree in Geography and now works in wastewater as a Collection Manager

"Anglian Water is a really friendly company that's committed to developing its graduates In fact, even after you've completed the graduate scheme there is a continued, structured development plan And if you're interested in working in another part of the business, they'll let you take a secondment from your role and gain some experience to see if it's right for you

"I'd sum up the graduate scheme as fun, full of variety, challenging and interesting What's more, you end up with a really great network of colleagues and friends!"

Looking for leaders

On the lookout for colleagues with the potential to succeed into leadership, management and business critical roles, our Business Unit Directors hold Career Forums every quarter This active programme of succession planning offers our employees opportunities for personal development across a variety of possible career paths and helps us identify and grow the talent we need from within the organisation

We also encourage secondments between departments This gives people the broader experience and understanding of the business necessary to take on more senior roles

Keeping everyone safe

It's our strong belief that all accidents are preventable and that nothing is so important that we cannot take the time to do it safely

Our target is no accidents to people and no harm to our environment We want to make sure that everyone working at and for Anglian Water is absolutely committed to achieving this goal Health and safety is an important agenda item at all meetings, from team catch-ups to board level, and is managed through our ***safe and well*** system

We work with hundreds of contractors and suppliers from across our region and beyond and recognise the opportunity our position as client gives us to positively influence health and safety in key areas of our supply chain We include contractors' accident rates in our Accident Frequency Rate and work very closely with our partners to improve not just our own health and safety performance but also standards across the industry

Evaluation and action

This year we recorded 66 potentially serious accidents However, the number and severity of the accidents is down considerably on last year's 99 and we're determined to see this downward trend continue In summer 2010 Directors and Senior Managers will be launching a major campaign to improve behaviour on safety

We positively encourage employees and contractors to report all accidents and incidents, however minor Reporting these *near misses* helps us to identify and prevent potential causes of serious injury or ill health in the future

Photo On our sites, everyone, including subcontractors, attends safety presentations and exercises

Measuring our performance on health and safety

We evaluate our performance using the Health and Safety Executive's (HSE) voluntary Corporate Health and Safety Performance Index – CHaSPI

CHaSPI considers health and safety performance *in the round* and gives a more useful overall picture rather than relying on the number of accidents and the amount of sickness

This year we once again achieved 7 7 out of 10 (2008/09 7 7) This is benchmarked against an average of 6 7 across 555 participating organisations

Measure	2006/07	2007/08	2008/09	2009/10
Accident Frequency Rate	0 39	0 37	0 39	0 37
Number of potentially serious incidents	n/a	106	99	66
CHaSPI	7 3	7 4	7 7	7 7

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

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

Improving employee health and attendance

We are committed to working with our people to improve their health and attendance at work

Our sickness absence rates are slightly higher than the CBI private sector average, and we are taking action to reduce them

We have launched a new telephone reporting system for absence, backed by tighter attendance standards We are currently training line managers on how to manage attendance more effectively

We offer all our staff private medical insurance and rapid access to private physiotherapy treatment to help them return to work at the earliest opportunity

Looking ahead to AMP5

Over the next five years, we will invest over £2 billion in the region as we tackle the tough challenges of climate change and growth. We will increase our efficiency and drive further customer service improvements. At the same time, we'll also reduce the average bill for customers by £28[1] in total by 2015. A challenging task, but one we're confident we can deliver.

2035

Our Strategic Direction Statement details our plans through to 2035

The next five years

First and foremost, we are working to be a leading business, both in the water industry and in the UK. We want to be rated number one in our industry, and to be known beyond it.

To achieve that we must rethink how we measure our performance. That's why we'll be campaigning for zero incidents, accidents and pollution, and working to halve the embodied carbon of the new assets we build.

Next, we want to be respected for delivering a vital service to our region, where economic growth and climate change present us all with huge challenges. Our goal is nothing less than 100 per cent customer satisfaction.

We want everyone who knows us to appreciate the pride and professionalism we bring to our work. We want to be renowned for doing things right first time and minimising waste. We also aim to be seen as a leading employer in our region.

To realise these ambitions for ourselves, our customers and our region – in short, to lead the field – we have set ourselves four challenges. These are the qualities we must build on to excel in AMP5.

Flexibility

Flexibility means being able to anticipate and meet the needs of our customers. As part of our *Shaping the Future* initiative, we are implementing changes to working practices and working hours which make us more effective and improve the service we give to customers.

Innovation

Over the next five years we need to focus on finding ways to continuously improve our processes. This means placing real value on innovation throughout our business as well as making the best use of technology, data and knowledge transfer.

Performance

We are committed to increasing individual team and company performance to improve the service and value we give to all our customers.

Meeting the challenges to sustainable services

We constantly review and identify challenges to sustainable water and wastewater services to our customers.

We see climate change as the biggest risk, not just to our business, but to the lifestyle and economy of our region. Over the next five years you can expect to see us take a radical new approach to water conservation and our role as stewards of this irreplaceable resource.

Photo: Wind surfing at Grafham Water

[1] 2009/10 prices

Business Review

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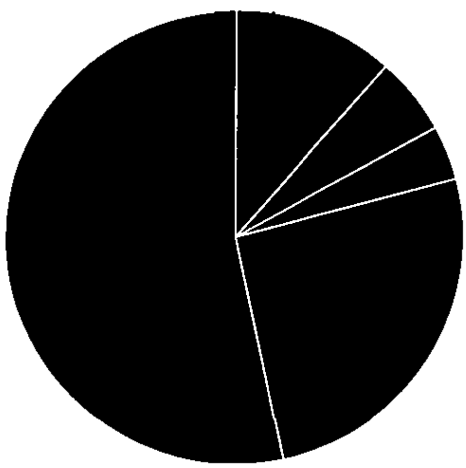
Investing in our region

We will invest £2 3 billion[1] in our region over the next five years

- £1,224 million on maintaining our existing assets, from pipes and meters to treatment works
- £94 million on enhancing our levels of customer service, which includes reducing the risk of loss of water supply for customers
- £123 million on drinking water quality enhancements
- £267 million on environmental improvements to increase protection for the plants, animals and habitats in our region
- £588 million on meeting the needs of a growing region Over the next five years we will provide 145,000 new homes with a water supply and make provision for 180,000 new properties to connect to our sewerage network



[1] Gross sums assumed by Ofwat in setting price limits for 2010/15 (2007/08 prices) before deducting grants and contributions

Changes to the regulatory framework in AMP5

Ofwat

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

Ofwat is looking at every stage of the water cycle to see where and how market forces can be introduced where there are clear benefits to customers and to the environment Ofwat believes there are benefits to allowing more customers a choice in supplier, and is also investigating the potential for competition in the wholesale areas of water and wastewater services

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

Cave Review – competition and innovation

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

Walker Review – charging and water efficiency

In 2009, the Government launched the Walker Review into charging for household water and sewerage services The Review concludes that, while we need to have a charging system that attaches incentives to the efficient use of water, charges need to be affordable, especially to those on low incomes

It also concludes that metering is the fairest way to charge for water use, and that 80 per cent of all customers in England could be metered by 2020 if its recommendations are followed

This aligns with our long term strategy, as set out in our Strategic Direction Statement, to meter all of our customers where practical by 2035

Another issue highlighted by the Review is bad debt, which currently costs every customer who pays their bill £12 per year During the recent recession we saw our total charge for bad debt increase by £13 5 million in 2009/10 We welcome the Review's call for legislative changes to help water and wastewater companies recover debts more easily

Playing an active part

We are now members of the Market Reform and Finance Forum, a group chaired by Defra and consisting of representatives from Government, regulators, the Shareholder Executive and the water and wastewater companies The purpose of the group is to ensure that current financing structures in the water industry remain viable while wider competition is introduced

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 are covered in more detail in our Strategic Direction Statement (SDS)

Other issues are also discussed in more detail in our ***Community and Environment Report*** and our ***Drinking Water Quality Report***

Our Business Continuity management system outlines our strategic response across a range of scenarios The plans allow us to recover as quickly as possible and minimise disruption to customers and loss to the business

Climate change

Climate change is one of the biggest threats to our business

We're taking action to meet the challenges to our assets and our region's environment from damage by flood in our low-lying region

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

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

In the last five years we've invested around an additional £40 million beyond Ofwat's 2005/10 regulatory determination in schemes to improve the resilience of supply to customers across our region

There's more information on how we're meeting the challenge of climate change on page 18 in this report and in our ***Community and Environment Report***

In 2009/10 our Business Continuity management system achieved certification to BS 25999

We are the only water company to have implemented this key recommendation of the Pitt Review of flooding

All publications are available online at
www anglianwater.co.uk

Energy management

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 Government carbon trading scheme – the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) – commenced on 1 April 2010 We understand the risks and opportunities arising from it and have effective processes in place to manage our involvement

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 See page 89

Growth

Coping with the forecast rise in population in our region is one of our most significant long-term challenges

Our region contains a large part of three of the four growth areas defined by the Government as well as a number of individual growth points

Although current economic conditions have slowed the rate of house building in the short term, we anticipate that the planned developments will be restarted once economic conditions in the UK improve

Although the total number of new connections this year was only 60 per cent of our normal annual level, the underlying 25-year growth forecasts have not changed However, changes to the political landscape following the General Election of May 2010 could result in a reassessment of current planning policy with the potential for the abolition of national and regional housing targets and the regional planning system We are monitoring developments carefully

Meeting the challenge of regional growth

Our Final Business Plan for 2010/15 includes

- Options for increasing water resources
- Transferring water between supply zones within our region
- Reinforcing our wastewater assets to supply new development without compromising environmental water quality

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

Hardship and bad debt

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

- We offer a telephone helpline and encourage customers in difficulty to contact us at an early stage
- Our *Back on Track* scheme continues to help customers who have been through a financially challenging period and built up arrears, but who are now in a position to start making regular repayments
- We continue to offer a range of tariffs for our most vulnerable customers
- The **Anglian Water Assistance Fund** provides further assistance to those experiencing genuine hardship

Recovering bad debt

The number of customers who choose not to pay their bills puts a considerable cost burden on those who do pay their water charges, currently £12 per year

We welcome the Walker Review's call for legislative changes to help water and wastewater companies recover debts more easily

We have a strong focus on recovering bad debt

- Seeking legal redress against those who are able to pay but choose not to do so
- Using our debt management system, introduced in January 2009, to exploit the recovery procedures available to us effectively
- Working with the Data Commission and credit referencing agencies on information exchange for credit referencing See page 36
- Benchmarking, reviewing and implementing best practice

Competition

We support the introduction of competition However, it's important that this is done in a way that provides economic benefit to all customers

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

We were involved in the Cave Review and subsequent Defra consultations We now participate in the Market Reform and Finance Forum chaired by Defra and set up to ensure that current financing structures in the water industry remain viable while wider competition is introduced See page 51

Economic conditions

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

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

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

Pensions

We 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 scheme remains a financial risk, with significant continued exposure on an actuarial basis, particularly as people are living longer

The assets of the scheme are invested in a wide portfolio, including both equity and debt instruments

The Trustees, the in-house Treasury team and our advisers work closely to manage investment, interest rate and inflation risks and the impact of expected improvements in longevity

During 2009/10 the pension scheme net valuation deficit (on an FRS 17 accounting basis) nearly doubled, due primarily to the reduction in discount rates which increase the scheme's liabilities This was partly offset by our deficit reduction payments of £20 8 million and an improvement in market conditions over the last 12 months

Anticipated change to our statutory obligations

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

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

Financial Performance

Anglian Water Services Limited is part of the Anglian Water Services Financing (AWSF) group See page 12 The company operates on an arm's-length basis from other companies outside the AWSF group The financial results for the year ending March 2010 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 112)

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 103 to 129

Financial results

The consolidated profit and loss account as presented on page 68 is summarised in the table below

	2010 Excluding transactions with AWS Holding companies £m	2010 Transactions with AWS Holding companies £m	2010 Total £m	2009 Total £m
Turnover	**1,099 8**	-	**1,099 8**	1,037 4
Operating costs (excluding exceptional costs)	**(386 1)**	-	**(386 1)**	(363 5)
Depreciation[1]	**(241 7)**	-	**(241 7)**	(228 3)
Exceptional operating costs	**(8 8)**	-	**(8 8)**	-
Operating profit	**463 2**	-	**463 2**	445 6
Net interest payable and other finance charges	**(259 5)**	**193 1**	**(66 4)**	(115 3)
Profit before tax	**203 7**	**193 1**	**396 8**	330 3
Taxation	**(51 7)**	-	**(51 7)**	(13 0)
Profit after tax	**152 0**	**193 1**	**345 1**	317 3
Dividends[2]	**(87 7)**	**(193 1)**	**(280 8)**	(293 6)
Retained profit	**64 3**	-	**64 3**	23 7

[1] Depreciation net of amortisation of grants and contributions

[2] Dividends paid to shareholders for the year ended 31 March 2010 were £87 7 million (2009 £100 0 million) The remaining £193 1 million (2009 £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 shows the profit and loss account excluding internal interest receivable by the group from Anglian Water Services Holdings Limited and the internal dividend paid by the group and retained within the AWSF group of £193 1 million (2009 £193 6 million)

Turnover for the year was £1,099 8 million, an increase of 6 0 per cent over the previous year due principally to the regulatory pricing formula Business volumes in the year remained steady despite the recession in the wider economy

Operating costs (before exceptional costs) for the year increased by £22 6 million (6 2 per cent) to £386 1 million (2009 £363 5 million) The charge for bad debts increased by £13 5 million compared with the previous year, reflecting an increased level of customer debt which we believe is a consequence of the recessionary environment We are in the process of implementing new debt management processes to help us work effectively with our customers during this difficult economic period

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

Overall, operating expenditure (before exceptional costs) as a percentage of turnover increased slightly from 35 0 per cent last year to 35 1 per cent

During the year we embarked on a reorganisation to prepare for the AMP5 period (2010/15) which gave rise to exceptional costs of £8 8 million This involved the introduction of more flexible working practices in operational areas, a review of support services and renegotiating key supplier contracts The principal costs relate to redundancies and one-off staff compensation payments for changes to their contractual terms of employment

As a result of the continuing capital programme depreciation (net of amortisation of grants and contributions) was up 5 9 per cent from £228 3 million last year to £241 7 million

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193 1 million, 2009 £193 6 million) decreased by 16 0 per cent from £308 9 million in 2008/09 to £259 5 million in 2009/10 This primarily reflects the impact of lower RPI in the year on index-linked debt, partially offset by the reduction in deposit income caused by the historically low base rate

Taxation

The tax charge has increased by £38 7 million to £51 7 million The increase is primarily due to higher taxable profits and a lower deferred tax credit arising from discounting compared with the prior year, together with an additional charge due to Advance Corporation Tax ('ACT') utilisation from another Anglian Water Group company

Capital expenditure

Gross capital expenditure for the year was £350 5 million, £105 3 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water

Successful completion of AMP4 investment programme

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

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

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

Financial needs and resources

In the year to 31 March 2010 Anglian Water raised £204 6 million of new funds and made repayments totalling £298 3 million on maturing bonds and £2 2 million on finance leases In addition to this, the subordinated intra-group loan of £90 0 million, which was provided by the shareholder consortium, as a precautionary measure, to maintain and improve near-term debt covenants at March 2009, was repaid in full in July 2009 to Osprey Holdco Limited, and repaid to the consortium in February 2010

At 31 March 2010 the group had net borrowings of £4,355 2 million, an increase of £67 8 million over the prior year Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,032 2 million and cash and deposits of £677 0 million The increased net borrowings comprise a net decrease of £236 3 million in cash and deposits (which causes net debt to increase), partly offset by a decrease of £168 5 million in loans and associated costs The business generated a net cash inflow from operating activities of £658 8 million in the year ended 31 March 2010 (2009 £630 5 million)

Distributions

Dividends paid to the ultimate shareholders for the year ended 31 March 2010 were £87 7 million (2009 £100 0 million), which equates to 10 20 pence per share (2009 11 63 pence per share) An intra-group dividend of £193 1 million (2009 £193 6 million) was paid and committed to Anglian Water Services Holdings Limited (via AWS Overseas 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 £280 8 million (2009 £293 6 million) have been paid and committed at 32 65 pence per share (2009 34 14 pence per share)

The Directors have proposed a final dividend for the year ended 31 March 2010 of 24 42 pence per share, which is a total of £210 0 million This distribution has not been accounted for within the 2009/10 financial statements as it was approved after the year-end The proposed dividend includes a special dividend of £90 0 million, reflecting an increase in the regulatory asset base of Anglian Water at the conclusion of AMP4 in respect of adjustments for COPI[1] in excess of RPI and net logging up of additional capital expenditure incurred and allowed by the Regulator

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 2010 the company held cash, deposits and current asset investments of £677 0 million (2009 £913 3 million) The reduction in cash held compared to the prior year reflected pre-funding in 2008/09 of bonds maturing in 2009/10 These resources are maintained to ensure liquidity and the continuation of the company's investment programme The maturity profile of

[1] COPI is the construction output price index, and at the end of an AMP period the Regulator adjusts the regulated asset value of the business for the cumulative difference between COPI and RPI over the AMP period

the company's borrowings is set out in note 17 on pages 86 to 92 of the accounts The new debt totalling £204 6 million raised during the year comprised £100 0 million of Medium Term Notes, a £100 0 million 10-year facility provided by the European Investment Bank, drawn in two tranches of £50 0 million each, and a new £4 6 million finance lease In addition, a further £130 0 million of funds were raised in May 2010 through the successful issuance of a new index-linked bond

The company has access to £225 0 million of undrawn facilities to finance enhancement capital expenditure and working capital requirements In June 2009 a £355 0 million forward starting facility was signed to replace the existing £225 0 million facilities when they mature in July 2010

In addition, the company has access to a further £355 0 million of liquidity facilities (2009 £340 0 million), consisting of £279 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

Following the fall in the UK Base Rate to 0 5 per cent in March 2009 and continued low short-term rates of interest, the cost of carry on Anglian Water Services' cash balances has significantly increased Rates received on cash deposits are at a historical low and Anglian Water Services has worked to reduce the cash held for liquidity purposes in the business to reduce the cost of carry

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, 53 5 per cent (2009 49 5 per cent) of the company's borrowings were at rates indexed to RPI, 40 9 per cent (2009 44 2 per cent) were at fixed rates and 5 6 per cent (2009 6 3 per cent) were at floating rates

Pension funding

The pension scheme net valuation deficit has almost doubled this year, with the FRS 17 liability (net of deferred tax) at 31 March 2010 standing at £141 2 million for all schemes, compared to a liability of £71 1 million at 31 March 2009 This is due primarily to the reduction in discount rates from 6 3 per cent at last year-end to 5 6 per cent at 31 March 2010 which increase the present value of scheme liabilities, partly offset by an improvement in market conditions since the previous year-end affecting the scheme assets, and the company making deficit reduction payments of £20 8 million

Regulatory accounts

The regulatory accounts are set out on pages 103 to 129 These show the results of Anglian Water on a non-consolidated basis and provide an analysis of the appointed (regulated) and non-appointed businesses

Atypical costs

Operating costs (excluding exceptional charges of £8 8 million (2009 £nil)) for the appointed business were £379 7 million (2009 £358 7 million) This includes atypical costs (as defined by Ofwat) of £11 8 million (2009 £2 6 million), which relates primarily to the impact of the recession on the bad debt charge in the year

Current cost depreciation

The current cost depreciation charge – as disclosed in the regulatory accounts – was £286 1 million (2009 £250 1 million)

Anglian Water Services Board of Directors

The Anglian Water Services Board of Directors
Back row (L–R) Scott Longhurst Robert Napier, John Watkinson, Christopher Garnett, Chris Newsome
Front row (L–R) Peter Simpson Sir Adrian Montague, Jean Spencer

Chairman

Sir Adrian Montague

Sir Adrian Montague was appointed Chairman of Anglian Water Group in March 2009, and Chairman of AWS on 29 January 2010 Sir Adrian has been Chairman of Michael Page International since 2002, and of CellMark Investments AB since 2008 He is also a Non-Executive Director of Skanska AB Sir Adrian was Chairman of British Energy Group plc from 2002 – 2009, Chairman of Friends Provident Group from 2005 – 2009, and Chairman of Infrastructure Investors Ltd from 2002 – 2009 In July 2010 he takes up the position of Chairman of 3i Group plc

Executive Directors

Scott Longhurst, Managing Director, Finance & Non-Regulated Business

Scott Longhurst was appointed Group Finance Director of Anglian Water Group (AWG) in November 2004 In January 2010 Scott was also appointed as Managing Director of the Group's non-regulated businesses in addition to his financial responsibilities 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 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

Chris Newsome, Director of Asset Management

Chris Newsome is Director of Asset Management at Anglian Water and was appointed in September 2004 Chris is a civil engineer by profession and has spent the vast majority of his career within the water industry, planning for, designing and delivering capital programmes of work He joined Anglian Water from Yorkshire Water, where he held the posts of Network Technology Manager from 1990 to 1991, Water Systems Manager from 1991 to 1993, General Manager – Investment from 1996 to 2000, and subsequently Head of Investment He is a member of the Institute of Civil Engineers and a member of the Chartered Institute of Water and Environmental Management He also holds an MBA from Manchester Business School

Peter Simpson, Managing Director AWS

Peter Simpson was appointed Managing Director in January 2010 He previously held the position of Chief Operating Officer, responsible for the day to day functioning of Anglian Water, with a scope covering operations, asset management and customer services Prior to that he held positions within the international division of AWG, including Regional Director for Europe and South America, based in the Czech Republic, and Senior Vice President of Operations, based in the USA Peter is a Chartered Water and Environmental Manager, a Chartered Environmentalist and a Chartered Health and Safety Practitioner He also holds an MBA from Warwick Business School

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

Independent Non-Executive Directors

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 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

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 also Chairman of Governors of Sedbergh School He was appointed as a Non-Executive Director of English Partnerships in March 2004 and became Chairman of English Partnerships in January 2008 Robert is also Chairman of the Trustees of the Carbon Disclosure Project

John Watkinson

John Watkinson was appointed in May 2005 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 In 2008, John set up Retail InsideOut, a specialist business practice, and is currently working with a number of retailers and retail suppliers on business growth, recovery, operational improvement and organisational design John is also a Group Chairman for Vistage International – working as a business coach for a host of CEOs from various industries and a Non-Executive Director of Buying Solutions – the UK's largest public sector procurement organisation

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 2010

Business review

On 23 November 2006, the ultimate parent company of Anglian Water Services Limited, being AWG Plc (which changed its name to AWG Parent Co Limited in August 2009), 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 12 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, are included in the Business Review and Financial Performance sections on pages 1 to 59

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 14 of the Business Review and in note 17 of the financial statements

Principal activities

The company provides around 1 1 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 940 million litres of wastewater per day from 2 5 million homes, including customers who receive their water from other companies The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets The organic waste is treated, dried and used in agriculture as a natural fertiliser

Results and dividends

The profit and loss account on page 68 shows the group's results and profit for the year Details of dividends paid during the year and proposed dividends can be found on page 81

Health and safety

Details are included on pages 46 and 47

Directors

Current Directors of the company are listed on pages 60 to 61 All of the Directors served throughout the year except for Sir Adrian Montague, who was appointed on 29 January 2010 Jonson Cox resigned as a Director and Chairman on 29 January 2010

Directors' indemnities

The company maintains Directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors The company has also provided an indemnity for its Directors, which is a qualifying third party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006

Charitable and political donations

During the year the company made no payment (2009 £0 75 million) to the Anglian Water Trust Fund, which ceased operation Instead, the company made available £0 75 million to the Anglian Water Assistance Fund, which paid a total of around £0 4 million directly to customers who qualified for assistance That amount is included as an operating cost in the statutory and regulatory accounts

The Anglian Water Group Community Investment Scheme, *give me five*, has given more than 17,400 hours (2009 17,200 hours) of employee time, for the year ended 31 March 2010, supporting local community activities The scheme offers employees the opportunity to take up to 30 hours of matched work time to support their local communities in such activities as working with schools, being a special constable and working with the Scout and Guiding movements The company's proviso is that participation also contributes to personal development objectives

During the year, Anglian Water donated £40,000 (2009 £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 (pictured, right) has raised a further £275,000 (2008 £162,000) for WaterAid

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

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 and electronic mailings 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 company participates in the AWG **Loyalty Savings Scheme** which is now in its fourth 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 In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given Career development and promotion of disabled people is, as far as possible, identical to that of other employees

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 2010 was 48 days (2009 43 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 418 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 stay in office and are deemed to be reappointed

By order of the board

Claire Russell

Joint Company Secretary

27 May 2010

Registered Office

Anglian House

Ambury Road

Huntingdon

Cambridgeshire PE29 3NZ

Registered in England and Wales No 2366656

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company and group will continue in business

The Directors confirm that suitable accounting policies have been used and applied consistently as set out in note 1 to the financial statements (accounting policies) They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2010 and that applicable UK accounting standards have been followed

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 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 company's 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

Accounts contents

Statutory Accounts

Regulatory Accounts

Group profit and loss account

for the year ended 31 March

Notes		2010 £m	2009 £m
2	**Turnover**	**1,099 8**	1,037 4
	Operating costs		
	– Operating costs before depreciation and exceptional operating costs	**(386 1)**	(363 5)
	– Depreciation net of amortisation of grants and contributions	**(241 7)**	(228 3)
4	– Exceptional operating costs	**(8 8)**	-
3	**Total operating costs**	**(636 6)**	(591 8)
	Operating profit	**463 2**	445 6
6	Net interest payable	**(51 8)**	(105 9)
7	Other finance charges	**(14 6)**	(9 4)
5	**Profit on ordinary activities before taxation**	**396 8**	330 3
8	Tax on profit on ordinary activities	**(51 7)**	(13 0)
	Profit for the financial year	**345 1**	317 3

The results above arise from continuing operations

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

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

Group statement of total recognised gains and losses

for the year ended 31 March

Notes		2010 £m	2009 £m
	Profit for the financial year	**345 1**	317 3
21	Actuarial losses recognised in the pension scheme	**(108 5)**	(15 7)
8	Current tax relating to the actuarial loss in the pension scheme	**3 1**	1 0
20	Movement on deferred tax relating to the actuarial loss in the pension scheme	**27 2**	3 4
	Total recognised gains and losses relating to the year	**266 9**	306 0

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

Group and company balance sheets

at 31 March

Notes		Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
	Fixed assets				
12	Tangible assets	**4,658 1**	4,567 9	**4,658 1**	4,567 9
13	Investments	**1,609 1**	1,609 1	**1,609 1**	1,609 1
		6,267 2	6,177 0	**6,267 2**	6,177 0
	Current assets				
14	Stocks	**10 1**	12 8	**10 1**	12 8
15	Debtors	**311 6**	263 1	**311 6**	559 2
	Investments – money market deposits	**78 5**	-	**63 5**	-
	Cash at bank and in hand (including short-term deposits)	**598 5**	913 3	**574 5**	574 7
		998 7	1,189 2	**959 7**	1,146 7
	Creditors amounts falling due within one year				
16 17	Short-term borrowings	**(2 5)**	(300 4)	**(2 5)**	(300 4)
16	Other creditors	**(451 8)**	(448 3)	**(456 2)**	(448 4)
		(454 3)	(748 7)	**(458 7)**	(748 8)
	Net current assets	**544 4**	440 5	**501 0**	397 9
	Total assets less current liabilities	**6,811 6**	6,617 5	**6,768 2**	6,574 9
	Creditors amounts falling due after more than one year				
17	Loans and other borrowings	**(5,029 7)**	(4,900 3)	**(5,029 7)**	(4,900 3)
18	Other creditors	**(133 7)**	(126 3)	**(133 7)**	(126 3)
		(5,163 4)	(5,026 6)	**(5,163 4)**	(5,026 6)
19	**Provisions for liabilities**	**(51 0)**	(49 9)	**(51 0)**	(49 9)
21	**Defined benefit pension liabilities**	**(141 2)**	(71 1)	**(141 2)**	(71 1)
	Net assets including pension liabilities	**1,456 0**	1,469 9	**1,412 6**	1,427 3
	Capital and reserves				
23	Called up share capital	**860 0**	860 0	**860 0**	860 0
24	Profit and loss account	**596 0**	609 9	**552 6**	567 3
	Total shareholder's funds	**1,456 0**	1,469 9	**1,412 6**	1,427 3

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

The financial statements on pages 68 to 101 were approved by the board of Directors on 27 May 2010 and were signed on its behalf by

Sir Adrian Montague
Director

Scott Longhurst
Director

Group cash flow statement

for the year ended 31 March

Notes		2010 £m	2009 £m
(a)	**Net cash inflow from operating activities**	**658 8**	630 5
	Returns on investments and servicing of finance		
	Interest received	**197 0**	230 7
	Interest paid	**(225 8)**	(218 9)
(d)	Issue costs of new debt issued	**(1 5)**	(2 6)
	Interest element of finance lease rental payments	**(3 4)**	(3 7)
	Net cash (outflow)/inflow from returns on investments and servicing of finance	**(33 7)**	5 5
	Taxation		
	Corporation tax (paid)/received	**(1 6)**	6 5
	Payments to other Anglian Water Group Limited group undertakings	**(59 7)**	(15 6)
	Taxation	**(61 3)**	(9 1)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(353 4)**	(432 1)
	Grants and contributions received	**19 8**	24 3
	Disposal of tangible fixed assets	**0 2**	2 0
	Net cash outflow for capital expenditure and financial investment	**(333 4)**	(405 8)
	Equity dividends paid to shareholders	**(280 8)**	(293 1)
	Net cash outflow before management of liquid resources and financing	**(50 4)**	(72 0)
(c)	**Management of liquid resources**		
(d)	Decrease/(increase) in short-term deposits and investments	**127 5**	(32 7)
	Financing		
(d)	Increase in amounts borrowed	**204 6**	534 1
(d)	Repayment of amounts borrowed	**(388 3)**	(238 2)
(d)	Capital element of finance lease rental payments	**(2 2)**	(2 9)
	Net cash (outflow)/inflow from financing	**(185 9)**	293 0
(d)	**(Decrease)/increase in cash**	**(108 8)**	188 3

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

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

Notes to the group cash flow statement

for the year ended 31 March

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

	2010 £m	2009 £m
Operating profit	**463 2**	445 6
Depreciation (net of amortisation of deferred grants and contributions)	**241 7**	228 3
Profit on sale of fixed assets	**(0 7)**	(1 9)
Difference between pension charge and cash contributions	**(25 6)**	(11 4)
Net movement in provisions	**(0 2)**	(1 4)
	678 4	659 2
Working capital		
Decrease in stocks	**2 7**	3 8
Increase in debtors	**(50 8)**	(33 0)
Increase in creditors	**28 5**	0 5
	(19 6)	(28 7)
Net cash inflow from operating activities	**658 8**	630 5

(b) Analysis of net debt

	1 April 2009 £m	Cash flows £m	Non cash movements £m	31 March 2010 £m
Cash at bank and in hand	296 9	(108 8)	-	**188 1**
Deposits and investments	616 4	(127 5)	-	**488 9**
Debt due within one year	(300 4)	390 5	(92 6)	**(2 5)**
Debt due after one year	(4,900 3)	(203 1)	73 7	**(5,029 7)**
	(4,287 4)	**(48 9)**	**(18 9)**	**(4,355 2)**

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of 'mark to market' adjustments Included within deposits and investments above are £410 4 million (2009 £616 4 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

	2010 £m	2009 £m
At beginning of year	**(4,287 4)**	(4,124 2)
Net (decrease)/increase in cash	**(108 8)**	188 3
(Decrease)/increase in short-term bank deposits and investments	**(127 5)**	32 7
Increase in borrowings	**(204 6)**	(534 1)
Repayment of amounts borrowed	**388 3**	238 2
Capital element of finance lease rental payments	**2 2**	2 9
Issue costs of new debt issued	**1 5**	2 6
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	**(1 7)**	(1 4)
Indexation of loan stock and RPI swaps	**(17 2)**	(92 4)
At end of year	**(4,355 2)**	(4,287 4)

Notes to the group 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 provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410), except as disclosed in note 1(d) below as relating to grants and contributions

a) 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 408 of the Companies Act 2006, 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 11 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

b) Turnover

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

Turnover represents amounts recoverable from the regulated business activities, including water, wastewater and environmental services, and non-regulated business, which primarily comprises legal searches to locate utility infrastructure, domestic emergency and personal accident insurance cover and recreation services Turnover relates to charges due in the year, excluding amounts paid in advance

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3 7 million)

c) Tangible fixed assets and depreciation

Tangible fixed assets comprise

(i) Infrastructure assets

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost along with related capital grants and contributions

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the company's Asset Management Plan, which is independently certified by the Reporter (see glossary of terms on page 133)

(ii) Other assets

Other assets comprise land and non-operational buildings, operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classified as infrastructure) and vehicles, mobile plant and equipment, and are included at cost less accumulated depreciation Cost includes own work capitalised comprising the direct costs of materials, labour and applicable overheads Interest costs are not capitalised

Freehold land is not depreciated, nor are assets in the course of construction until commissioned Depreciation of other assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows

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

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

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

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

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets This policy is not in accordance with Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, 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 12

Revenue grants and contributions are credited to the profit and loss account in the year to which they apply

e) Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor, and the finance costs being written off to the profit and loss account over the primary period of the lease The assets are depreciated over the shorter of their estimated useful lives and the lease period All other leases are regarded as operating leases Rental costs arising under operating leases are expensed over the term of the lease

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

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

h) Pension costs
Defined benefit schemes
For the defined benefit schemes and unfunded pension arrangement, pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance charges Actuarial gains and losses are recognised in the statement of total recognised gains and losses

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

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

Notes to the group financial statements continued

1 Accounting policies continued

i) Research and development
Research and development expenditure is charged to the profit and loss account in the year in which it is incurred Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets

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

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

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

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

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

Calculation of deferred tax on infrastructure assets
Infrastructure assets effectively have an unlimited life and a notional depreciation charge, the infrastructure renewal charge (IRC) is offset against the gross network asset value (see note 1(c)) For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based IRC to an appropriate deemed historic cost based depreciation charge

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

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

n) Current asset investments
Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet Cash deposits with a maturity of greater than one day but less than three months are classified as cash at bank and in hand within the balance sheet, but are classified within liquid resources for the purposes of the cash flow statement

o) Borrowings
A financial liability is initially recognised net of issue 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

p) 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

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

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

r) Redundancy costs
Redundancy costs are charged to the profit and loss account in the period in which the group both becomes irrevocably committed to incurring the costs and has raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives

s) Onerous lease costs
Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub leases

t) 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

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

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 group 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

	2010 £m	2009 £m
Operating costs/(credits) before depreciation and exceptional operating costs		
Raw materials and consumables	**9 1**	10 7
Other operating costs	**291 4**	269 0
Staff costs (see note 10)	**141 8**	142 4
Own work capitalised	**(55 9)**	(57 5)
Contribution to Anglian Water Assistance Fund	**0 4**	0 8
Profit on sale of fixed assets	**(0 7)**	(1 9)
Total operating costs before depreciation and exceptional operating costs	**386 1**	363 5
Depreciation of tangible fixed assets	**249 1**	239 0
Amortisation of deferred grants and contributions	**(7 4)**	(10 7)
Depreciation net of amortisation of deferred grants and contributions	**241 7**	228 3
Exceptional operating costs	**8 8**	-
Total operating costs	**636 6**	591 8

The profit on sale of fixed assets relates to various sales of surplus vehicles, plant and equipment

The exceptional operating costs of £8 8 million relate to redundancy and other costs (see note 4) and consist of £7 6 million of staff costs and £1 2 million of other operating costs There were no exceptional operating costs in 2009

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 Exceptional operating costs

	2010 £m	2009 £m
Restructuring and other costs	**8 8**	-

Restructuring and other costs relate to redundancy and other one-off costs incurred to reposition the Anglian Water business to meet the challenge of the Final Determination published by Ofwat in November 2009

5 Profit on ordinary activities before taxation

	2010 £m	2009 £m
Profit before taxation is stated after charging/(crediting)		
Profit on disposal of tangible fixed assets	**(0 7)**	(1 9)
Hire of machinery and equipment	**2 7**	2 7
Other operating lease rentals	**2 2**	3 8
Research and development expenditure	**0 4**	0 4
Fees paid to the auditors		
– fees payable to the company auditor for the audit of the parent company and consolidated accounts	**0 2**	0 2
Non-audit services		
– other services pursuant to regulatory requirements	**0 1**	0 3
– other services	**0 4**	0 1
Total fees paid to the auditors	**0 7**	0 6

The fees paid to auditors for non-audit services pursuant to regulatory requirements relate to regulatory reporting to Ofwat Other non-audit services largely relate to advisory work in relation to system improvements and risk management, and the annual offering circular update to enable the ongoing issue of listed debt

6 Net interest payable

	2010 £m	2009 £m
Other loans including financing expenses	**229 1**	237 3
Indexation	**17 2**	92 4
Finance leases	**3 0**	3 7
Interest receivable from Anglian Water Services Holdings Limited	**(193 1)**	(193 6)
Other interest receivable	**(4 4)**	(33 9)
Net interest payable and similar items	**51 8**	105 9

7 Other finance charges

	2010 £m	2009 £m
Unwinding of discount on provisions (see note 19)	**0 1**	1 7
Defined benefit pension scheme (see note 21(f))	**14 5**	7 7
Other finance charges	**14 6**	9 4

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8 Taxation

	2010 £m	2009 £m
a) Analysis of tax charge in the year		
Current tax		
UK corporation tax	**38 0**	30 2
Adjustments in respect of previous periods	**14 8**	11 6
Total current tax charge	**52 8**	41 8
Deferred tax		
Charge for timing differences arising in year	**21 1**	8 3
Impact of discounting on deferred tax liability	**(9 5)**	(19 3)
Impact of increase in discount rates	**(0 8)**	(1 7)
Discounted effect of movements in Advance Corporation Tax (ACT)	**3 2**	-
Adjustments in respect of previous periods	**(15 1)**	(16 1)
Total deferred tax credit	**(1 1)**	(28 8)
Total tax charge on profit on ordinary activities	**51 7**	13 0

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group Movements in the discount rates gave rise to a credit of £0 8 million (2009 credit of £1 7 million) in the year If all UK gilt rates moved by 0 25 per cent a change in the tax charge of between £10 0 million and £15 0 million would occur

The 2010 current tax charge includes a charge of £11 2 million from another Anglian Water Group Limited group undertaking for the utilisation of ACT There is no similar charge in 2009

The current tax adjustment for previous periods relates to a prior year capital allowances disclaimer (£8 6 million) and a charge to another group company for expected ACT utilisation (£6 2 million) In 2009 the current tax adjustment for prior years relates to a prior year capital allowance disclaimer

The deferred tax adjustment for prior years for both 2009 and 2010 relates to the effect of the prior year capital allowances disclaimers

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 1 million (2009 £193 6 million)

In addition to the current tax charge above, a £3 1 million credit (2009 £1 0 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 year
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28 per cent, 2009 28 per cent) The differences are explained below

	2010 £m	2009 £m
Profit on ordinary activities before tax	**396 8**	330 3
Profit on ordinary activities at the standard UK rate of corporation tax (28 per cent, 2009 28 per cent)	**111 1**	92 5
Effects of		
Items not deductible for tax purposes	**0 5**	0 5
Items not taxable	**(0 2)**	(0 5)
Group relief utilised without charge	**(54 1)**	(54 2)
Depreciation not eligible for tax purposes	**4 3**	4 8
Industrial buildings allowance	**(2 5)**	(4 5)
Depreciation for the year less than capital allowances	**(21 7)**	(9 7)
Short-term timing differences	**0 6**	1 3
Adjustment to tax charge in respect of previous periods	**14 8**	11 6
Current tax charge for the year	**52 8**	41 8

9 Dividends

	2010 £m	2009 £m
Previous year final dividend	**37 7**	100 0
Current year interim dividend	**50 0**	-
Dividend paid by the company and retained within the Anglian Water Services Financing group	**192 6**	193 1
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	**0 5**	0 5
	280 8	293 6

A dividend of £193 1 million (2009 £193 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 prior year dividend committed of £0 5 million was paid in June 2009

The Directors have proposed a final dividend for the year ended 31 March 2010 of 24 42 pence per share, which is a total of £210 0 million The proposed dividend includes a special dividend of £90 0 million, reflecting an increase in the regulatory asset base of the company at the conclusion of AMP4 in respect of adjustments for the construction output price index (COPI) in excess of the retail price index (RPI) and net logging up of additional capital expenditure incurred and allowed by the Regulator This distribution has not been accounted for within the 2010 financial statements as it was proposed and approved after the year end

Notes to the group financial statements continued

10 Employee information and Directors' emoluments

a) Employee information

	2010 £m	2009 £m
Staff costs		
Wages and salaries	**120 8**	115 9
Social security costs	**10 0**	10 0
Pension costs – defined contribution (see note 21)	**3 2**	2 9
Pension costs – defined benefit (see note 21)	**7 8**	13 6
	141 8	142 4

Staff costs for the year ended 31 March 2010 include £37 9 million (2009 £38 9 million) of costs that have been capitalised as 'own work capitalised' The amount disclosed in the prior year has been restated from £57 5 million to £38 9 million to exclude associated non-staff costs capitalised In addition to the staff costs above there is an additional £7 6 million of staff costs (including £1 1 million of pension past service costs) disclosed as exceptional costs

	2010	2009
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	**601**	613
Wastewater Services	**1,464**	1,364
Customer Services	**786**	813
Asset Management and Other	**960**	982
	3,811	3,772

b) Directors' emoluments

	2010 £'000	2009 £ 000
Total aggregate emoluments	**1,986**	1,537
Company contributions to defined contribution pension schemes	**292**	212
Benefits received under long-term incentive plans	**383**	-

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits and amounts payable under annual bonus schemes Retirement benefits are accruing to one Director (2009 one Director) under a defined benefit pension scheme Retirement benefits are accruing to four Directors (2009 four Directors) under a defined contribution pension scheme In addition to the aggregate emoluments above, certain Directors receive emoluments from other AWG group companies

c) Highest paid Director

	2010 £'000	2009 £ 000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	**692**	405
Accrued defined benefit at year end	**45**	-

The company's contribution in respect of the highest paid Director into defined contribution pension schemes was £25,000 (2009 £96,000) The highest paid Director in the prior year resigned on 29 January 2010 and the amounts disclosed for the highest paid Director for the prior year comparative represent the costs recharged to the company in relation to that Director's services

11 Profit for the financial year

The group profit for the financial year includes a profit of £344 3 million (2009 £300 5 million), which has been dealt with in the financial statements of the parent undertaking

12 Tangible fixed assets

	Group and company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2009	**34 5**	**2,883 8**	**3,555 5**	**817 1**	**332 3**	**7,623 2**
Additions	-	-	-	-	**350 5**	**350 5**
Transfers on commissioning	**1 3**	**140 5**	**259 0**	**71 2**	**(472 0)**	-
Disposals	-	-	-	**(0 3)**	-	**(0 3)**
At 31 March 2010	**35 8**	**3,024 3**	**3,814 5**	**888 0**	**210 8**	**7,973 3**
Grants and contributions						
At 1 April 2009	-	**(229 2)**	-	-	**(1 2)**	**(230 4)**
Additions	-	**(12 1)**	-	-	**1 0**	**(11 1)**
At 31 March 2010	-	**(241 3)**	-	-	**(0 2)**	**(241 5)**
Depreciation						
At 1 April 2009	**(3 5)**	**(734 6)**	**(1,464 3)**	**(622 5)**	-	**(2,824 9)**
Charge for the year	**(0 4)**	**(75 0)**	**(119 1)**	**(54 6)**	-	**(249 1)**
Disposals	-	-	-	**0 3**	-	**0 3**
At 31 March 2010	**(3 9)**	**(809 6)**	**(1,583 3)**	**(676 8)**	-	**(3,073 7)**
Net book amount						
At 31 March 2010	**31 8**	**1,973 4**	**2,231 1**	**211 2**	**210 6**	**4,658 1**
At 31 March 2009	31 0	1,920 0	2,091 2	194 6	331 1	4,567 9

Tangible fixed assets at 31 March 2010 include land of £21 8 million (2009 £20 5 million) which is not subject to depreciation The group's interests in land and buildings are almost entirely freehold

Assets held under finance leases and capitalised in vehicles, plant and equipment	2010 £m	2009 £m
Cost	**255 6**	251 0
Aggregate depreciation	**(166 9)**	(158 8)
Net book amount	**88 7**	92 2

Capital commitments

The group has a substantial long-term investment programme which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth The commitments shown below reflect the value outstanding of orders placed at 31 March 2010

	2010 £m	2009 £m
Contracted for but not provided in the financial statements	**111 7**	122 1

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13 Fixed asset investments

	Group and company 2010 £m	Group and company 2009 £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 2010

14 Stocks

	Group and company 2010 £m	Group and company 2009 £m
Raw materials and consumables	**10 1**	12 8

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

15 Debtors

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Amounts falling due within one year				
Trade debtors	**170 6**	133 4	**170 6**	133 4
Amounts owed by other Anglian Water Group Limited group undertakings	**1 4**	0 9	**1 4**	297 2
Other debtors	**8 8**	7 6	**8 8**	7 4
Prepayments and accrued income	**129 3**	119 4	**129 3**	119 4
	310 1	261 3	**310 1**	557 4
Amounts falling due after more than one year				
Amounts owed by other Anglian Water Group Limited group undertakings	**1 5**	1 8	**1 5**	1 8
	311 6	263 1	**311 6**	559 2

Prepayments and accrued income as at 31 March 2010 includes water and wastewater income not yet billed of £121 4 million (2009 £111 7 million)

The amounts owed by other Anglian Water Group Limited group undertakings falling due after more than one year represent prepayments and are not interest bearing

16 Creditors amounts falling due within one year

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Current portion of long-term loans	-	298 3	-	298 3
Obligations under finance leases	**2 5**	2 1	**2 5**	2 1
Short-term borrowings (see note 17)	**2 5**	300 4	**2 5**	300 4
Trade creditors	**112 7**	115 9	**112 7**	115 9
Amounts owed to other Anglian Water Group Limited group undertakings	**0 5**	0 7	**107 8**	104 7
Receipts in advance	**125 0**	110 0	**125 0**	110 0
Corporation tax	**77 5**	95 3	**77 5**	95 3
Other taxation and social security	**2 8**	2 9	**2 8**	2 9
Deferred grants and contributions	**7 4**	7 2	**7 4**	7 2
Accruals	**125 9**	116 3	**23 0**	12 4
Other creditors	**451 8**	448 3	**456 2**	448 4

Receipts in advance includes £108 6 million (2009 £89 6 million) relating to amounts received from customers for water and wastewater charges in respect of the following year

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

Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Loans and other borrowings				
£100 million 12 375% fixed rate 2014 (d), (f)	**100 0**	100 0	**100 0**	100 0
£250 million 5 837% fixed rate 2022 (d) (f)	**247 5**	247 3	**247 5**	247 3
£200 million 6 875% fixed rate 2023 (d) (f)	**200 0**	199 9	**200 0**	199 9
£200 million 6 625% fixed rate 2029 (d) (f)	**199 9**	199 9	**199 9**	199 9
£246 million 6 293% fixed rate 2030 (d), (f)	**244 0**	243 9	**244 0**	243 9
£275 million 7 882% fixed rate 2012/2037[1] (d), (f), (g)	**274 2**	273 8	**274 2**	273 8
£250 million 5 25% fixed rate 2015 (b), (d), (f)	**249 7**	249 7	**249 7**	249 7
£150 million 5 5% fixed rate 2017/2040[2] (b), (d), (f), (g)	**148 9**	148 8	**148 9**	148 8
£150 million 4 125% index linked 2020 (c), (d) (f)	**194 0**	195 2	**194 0**	195 2
£75 million 3 666% index linked 2024 (c), (d), (f)	**92 0**	92 5	**92 0**	92 5
£200 million 3 07% index linked 2032 (c), (d), (f)	**243 8**	245 2	**243 8**	245 2
£60 million 3 07% index linked 2032 (c) (d) (f)	**73 7**	73 6	**73 7**	73 6
Finance leases (b) (d)	**64 6**	62 3	**64 6**	62 3
£150 million index-linked swap 2024 (e) (f)	**37 0**	35 0	**37 0**	35 0
£175 million index-linked swap 2030 (e), (f)	**43 2**	40 8	**43 2**	40 8
£258 million index-linked swap 2013 (e), (f)	**55 1**	50 0	**55 1**	50 0
€350 million 5 375% fixed rate 2009 (a), (d), (f)	**-**	229 3	**-**	229 3
€650 million 4 625% fixed rate 2013 (a), (b), (d), (f)	**452 9**	452 8	**452 9**	452 8
US$25 million 7 07% private placements 2009 (a), (f)	**-**	2 7	**-**	2 7
US$23 million 7 13% private placements 2009 (a), (d), (f)	**-**	16 3	**-**	16 3
US$195 million 7 23% private placements 2011 (a), (d), (f)	**138 4**	138 3	**138 4**	138 3
£402 million 2 40% index linked 2035 (c) (d), (f)	**458 1**	457 3	**458 1**	457 3
£50 million 1 7% index linked 2046 (c) (d) (f)	**55 0**	55 3	**55 0**	55 3
£50 million 1 7% index linked 2046 (c) (d) (f)	**55 8**	55 1	**55 8**	55 1
£40 million 1 7146% indexation bond 2056 (c) (d) (f)	**44 3**	44 5	**44 3**	44 5
£50 million 1 6777% indexation bond 2056 (c), (d), (f)	**55 4**	55 6	**55 4**	55 6
£60 million 1 7903% indexation bond 2049 (c), (d), (f)	**66 4**	66 8	**66 4**	66 8
£100 million 1 3784% indexation bond 2057 (c) (d) (f)	**111 8**	110 6	**111 8**	110 6
£50 million 1 3825% indexation bond 2056 (c) (d), (f)	**55 8**	55 3	**55 8**	55 3
£50 million Class B authorised loan facility (f)	**-**	50 0	**-**	50 0
£100 million Class A wrapped floating rate bonds (d), (f)	**99 9**	99 9	**99 9**	99 9
£100 million index-linked swap 2057 (e) (f)	**11 7**	9 7	**11 7**	9 7
£75 million 1 449% indexation bond 2062 (c) (d) (f)	**80 6**	78 7	**80 6**	78 7
£50 million 1 52% indexation bond 2055 (c), (d), (f)	**53 6**	52 3	**53 6**	52 3
JPY 15 billion 2 925% fixed rate bond 2018/2037 (a), (b), (d), (f)	**65 9**	65 9	**65 9**	65 9
£65 9 million index-linked swap 2059 (e), (f)	**4 9**	3 3	**4 9**	3 3
£110 million Class A unwrapped floating rate bonds 2043 (d), (f)	**109 9**	109 9	**109 9**	109 9
£50 million index-linked swap 2043 (e), (f)	**1 8**	1 4	**1 8**	1 4
JPY 5 billion 3 22% fixed rate bond 2038 (a), (b), (d), (f)	**25 0**	25 0	**25 0**	25 0
€500 million 6 25% fixed rate bond 2016 (a), (d), (f)	**392 4**	392 2	**392 4**	392 2
£25 million 6 875% 2034 private placement (d), (f)	**24 6**	24 6	**24 6**	24 6
£90 million 10 0% fixed rate subordinated loan	**-**	90 0	**-**	90 0
£100 million Class B 6 75% fixed rate bond 2024[3] (d) (f)	**98 9**	-	**98 9**	-
EIB £50 million 1 626% term facility 2019 (c), (d), (f)	**51 1**	-	**51 1**	-
EIB £50 million 1 3% term facility 2020 (c), (f)	**50 4**	-	**50 4**	-
Total loans and other borrowings	**5,032 2**	5,200 7	**5,032 2**	5 200 7
Less amounts included in creditors falling due within one year	**(2 5)**	(300 4)	**(2 5)**	(300 4)
Loans and other borrowings due after more than one year	**5,029 7**	4 900 3	**5,029 7**	4,900 3

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 £10 1 million (2009 £2 9 million), the adjustment to the Euro loans is £(177 0) million (2009 £(311 4) million) and the adjustment to the Japanese Yen loans is £(49 9) million (2009 £(49 6) million)

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy (see page 77)

(c) The value of the capital and interest elements of the index-linked loans are linked to movements in the Retail Price Index (RPI) The total increase in the capital value of index-linked loans during the year of £3 7 million (2009 £62 0 million) has been taken to the profit and loss account as part of interest payable

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

(e) The group has entered into six index-linked interest rate swap agreements The values of the notional capital on these swaps are linked to movements in the Retail Price Index (RPI) The increase in the notional capital value is payable at the final maturity date of the swaps The increase for the current year of £13 5 million (2009 £30 4 million) has been taken to the profit and loss account as part of interest payable

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

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

(h) 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 2010 this charge applies to £5,032 2 million (2009 £5,110 7 million) of the debt listed above

[1] The coupon for this instrument will increase to floating rate LIBOR plus 6 0 per cent effective July 2012

[2] The coupon for this instrument will increase to floating rate 3-month LIBOR plus 3 5 per cent effective October 2017

[3] The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10 9 per cent effective June 2014

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17 Loans, other borrowings and financial instruments continued

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

	2010		2009	
	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)	-	**4,985 4**	298 3	4,768 2
Amounts owed to group undertakings (subordinated loans)	-	-	-	90 0
Debt issue costs	-	**(17 8)**	-	(18 1)
Obligations under finance leases	**2 5**	**62 2**	2 1	60 2
Finance lease issue costs	-	**(0 1)**	-	-
	2 5	**5,029 7**	300 4	4,900 3

Maturity analysis of financial liabilities

	Group and company	
	2010 £m	2009 £m
Less than one year	**4 3**	302 3
Between one and two years	**143 0**	4 3
Between two and five years	**625 6**	845 5
After five years	**4,282 3**	4,069 4
	5,055 2	5,221 5

Included above are amounts due under finance leases of £2 5 million (2009 £2 1 million) payable within one year, £2 9 million (2009 £2 5 million) payable between one and two years, £15 5 million (2009 £9 6 million) payable between two and five years and £43 7 million (2009 £48 1 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 £23 0 million (2009 £20 8 million), of which £1 8 million falls due in less than one year (2009 £1 9 million) This analysis is net of issue costs totalling £17 9 million (2009 £18 1 million)

Borrowing facilities

	Group	
	2010 £m	2009 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	**580 0**	340 0
Expiring between one and two years	-	225 0
	580 0	565 0

In June 2009 a £355 0 million forward starting facility was signed to replace the existing £225 0 million facilities when they mature in July 2010

Control of treasury
The Treasury team, which reports directly to the Managing Director of Finance & Non-Regulated Business, 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, liquidity 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 April 2010 and treasury matters are reported to the board each month

A Finance, Treasury and Energy Policy Group (FTEPG), comprising the Managing Director of Finance & Non-Regulated Business, the Group Treasurer, together with other Directors and senior managers, 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, floating rate notes and AAA rated money funds

The group, via its financing subsidiary Anglian Water Services Financing Plc, 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 62) 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
iii) Commodity price risk
The group is exposed to commodity price risk in its energy procurement and utilises forward energy instruments to minimise its exposure to price fluctuations

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 group financial statements continued

17 Loans, other borrowings and financial instruments continued

Fair value of financial assets and financial liabilities

	2010		2009	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
The fair value of the group's financial instruments at 31 March was				
Cash at bank and in hand	**598 5**	**598 5**	913 3	913 3
Current asset investments	**78 5**	**78 5**	-	-
Short-term borrowings	**(2 5)**	**(2 5)**	(394 9)	(397 2)
Long-term borrowings	**(5,092 7)**	**(5,383 0)**	(5,023 5)	(4,808 2)
Interest rate swaps	**216 7**	**300 5**	358 0	467 3
Index-linked swaps	**(153 7)**	**(425 1)**	(140 3)	(386 8)
Energy hedging instruments	**-**	**(21 5)**	-	-
	(4,355 2)	**(4,854 6)**	(4,287 4)	(4,211 6)
Fixed asset investments	**1,609 1**	**1,930 9**	1,609 1	1,930 9
Provisions excluding deferred tax and pension obligations	**(23 0)**	**(22 2)**	(20 8)	(37 2)
	(2,769 1)	**(2,945 9)**	(2,699 1)	(2,317 9)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £103 1 million (2009 £105 3 million) The book value excludes accrued interest which is shown separately in the balance sheet within creditors amounts falling due within one year

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

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

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

Interest is charged to the profit and loss account based on the contracted interest rates To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2010 The value at that date was determined by market 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 which the group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates

	2010			2009 (restated)[1]		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	**115 7**	**(269 3)**	**(153 6)**	14 1	(188 4)	(174 3)
Reversal of items unrecognised at 1 April	**(5 3)**	**17 5**	**12 2**	(2 1)	9 1	7 0
Recognised during the year	**(31 2)**	**15 4**	**(15 8)**	(11 4)	11 0	(0 4)
Arising during the year	**22 1**	**(73 2)**	**(51 1)**	115 1	(101 0)	14 1
Unrecognised at 31 March	**101 3**	**(309 6)**	**(208 3)**	115 7	(269 3)	(153 6)

[1] The unrecognised gains and losses in the prior year have been restated to exclude indexation on index linked swaps which is recognised on the balance sheet as part of interest accruals

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised The total net unrecognised loss of £208 3 million (2009 net loss of £153 6 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2010

Of the unrecognised gains and losses at 31 March 2010, a net gain of £15 1 million (2009 net loss of £14 0 million) is expected to be included in the profit and loss account for the year ended 31 March 2011 and the balance in future years

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 2010

	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]	**(5,032 2)**	**(2,693 2)**	**(280 1)**	**(2,058 9)**	**-**	**7 0%**	**14 6**
Cash, deposits and current asset investments (all sterling)	**677 0**	**-**	**677 0**	**-**	**-**		
Net debt	**(4,355 2)**	**(2,693 2)**	**396 9**	**(2,058 9)**	**-**		
Fixed asset investments	**1,609 1**	**-**	**-**	**1,609 1**	**-**	**12 0%**	**54 0**
Provisions	**(23 0)**	**-**	**-**	**-**	**(23 0)**		
Net financial liabilities	**(2,769 1)**	**(2,693 2)**	**396 9**	**(449 8)**	**(23 0)**		

[1] The underlying currencies of borrowings as set out on page 86 have been swapped to sterling

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Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

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 86 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

18 Other creditors falling due after more than one year

	Group and company	
	2010 £m	2009 £m
Deferred grants and contributions	**127 5**	126 3
Amounts owed to other Anglian Water Group Limited group undertakings	**6 2**	-
	133 7	126 3

The amounts owed to other Anglian Water Group Limited group undertakings falling due after more than one year represent amounts due for utilisation of ACT and are not interest bearing

19 Provisions for liabilities

	Group and company				
	Onerous lease obligation £m	Other onerous contracts £m	Coupon enhancement provision £m	Deferred tax provision £m	Total £m
At 1 April 2009	2 0	3 5	15 3	29 1	49 9
Charge/(credit) for the year	-	4 6	-	(1 1)	3 5
Unwinding of discount (note 7)	0 1	-	-	-	0 1
Utilised in the year	(0 2)	-	(2 3)	-	(2 5)
At 31 March 2010	**1 9**	**8 1**	**13 0**	**28 0**	**51 0**

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 12 years

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

The coupon enhancement provision of £13 0 million relates to coupon enhancement and other related costs incurred on the transfer of debt from AWG Group Limited group 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 19 years and has been discounted

The deferred tax provision and the effect of discounting is analysed in note 20

20 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 £54 2 million

	Group and company	
	2010 £m	2009 £m
Accelerated capital allowances	**669 8**	655 2
Short-term timing differences	**(9 0)**	(8 3)
Surplus ACT asset	**(137 5)**	(142 5)
Undiscounted provision for deferred tax	**523 3**	504 4
Discount	**(495 3)**	(475 3)
Discounted provision for deferred tax	**28 0**	29 1
Deferred tax asset on pension liability (see note 21(b))	**(54 9)**	(27 7)
Total deferred tax included in the balance sheet	**(26 9)**	1 4
As at 1 April 2009	**1 4**	
Deferred tax credited to the profit and loss account (see note 8(a))	**(1 1)**	
Deferred tax credited to the statement of total recognised gains and losses	**(27 2)**	
At 31 March 2010	**(26 9)**	

Notes to the group financial statements continued

21 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 2010 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 dependents), and payments are expected to be made over approximately 25 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 £3 2 million (2009 £2 9 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 2010 The group contributed 16 0 per cent of pensionable pay in the year and for the year ending 31 March 2011 the expected contribution rate is 21 2 per cent In addition, the group paid £20 8 million in deficit reduction payments in the year and anticipates it will pay £20 8 million in 2011

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

	2010 % pa	2009 % pa
Discount rate	**5 6**	6 3
Inflation rate	**3 5**	3 0
Increase to deferred benefits during deferment	**3 5**	3 0
Increases to inflation related pensions in payment	**3 5**	3 0
General salary increases[1]	**4 5**	4 0
Longevity at age 65 for current pensioners (years)		
Men	**23 3**	23 2
Women	**25 8**	25 7
Longevity at age 65 for future pensioners (years)		
Men	**25 4**	25 3
Women	**27 7**	27 6

[1] The general salary increase assumption is based on a long term view

(b) Amounts recognised in the balance sheet

The long-term expected rate of return and the assets in the scheme relating to the group at 31 March 2010 are

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7 5	286 5	n/a	2 6	289 1
Corporate bonds	5 6	112 4	n/a	-	112 4
Gilts	4 5	294 6	n/a	10 9	305 5
Property	6 5	38 6	n/a	-	38 6
Alternatives	6 5	31 3	n/a	-	31 3
Other	0 5	35 5	n/a	-	35 5
Total assets		**798 9**	**n/a**	**13 5**	**812 4**
Fair value of scheme liabilities		**(943 1)**	**(48 9)**	**(16 5)**	**(1,008 5)**
Deficit in the scheme		**(144 2)**	**(48 9)**	**(3 0)**	**(196 1)**
Related deferred tax asset		**40 4**	**13 7**	**0 8**	**54 9**
Net pension liability		**(103 8)**	**(35 2)**	**(2 2)**	**(141 2)**

The long-term expected rate of return and the assets in the scheme relating to the group at 31 March 2009 are

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7 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)

Notes to the group financial statements continued

21 Pension commitments continued

(c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2009	**(717 7)**	**(42 7)**	**(13 0)**	**(773 4)**
Current service cost	**(7 6)**	**-**	**(0 2)**	**(7 8)**
Past service cost	**(1 1)**	**-**	**-**	**(1 1)**
Members' contributions	**(3 8)**	**-**	**-**	**(3 8)**
Net interest	**(44 6)**	**(2 6)**	**(0 8)**	**(48 0)**
Benefits paid	**27 1**	**2 6**	**0 4**	**30 1**
Actuarial loss	**(195 4)**	**(6 2)**	**(2 9)**	**(204 5)**
At 31 March 2010	**(943 1)**	**(48 9)**	**(16 5)**	**(1,008 5)**

	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)

(d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2009	**662 1**	**-**	**12 5**	**674 6**
Expected return on scheme assets	**33 0**	**-**	**0 5**	**33 5**
Members' contributions	**3 8**	**-**	**0 1**	**3 9**
Employer's contributions	**31 4**	**2 6**	**0 5**	**34 5**
Benefits paid	**(27 0)**	**(2 6)**	**(0 5)**	**(30 1)**
Actuarial gain	**95 6**	**-**	**0 4**	**96 0**
At 31 March 2010	**798 9**	**-**	**13 5**	**812 4**

	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 and expenses	(25 7)	(2 5)	(0 4)	(28 6)
Actuarial loss	(121 7)	-	-	(121 7)
At 31 March 2009	662 1	-	12 5	674 6

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 three per cent equity risk premium The return on bonds is determined by the market yield on long-term bonds with an adjustment for defaults The expected return on property is determined as gilt yields plus a two per cent risk premium The expected return on other assets is set by reference to base rates

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

The actual return of the scheme assets in the year was £129 5 million (2009 loss of £77 0 million)

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2010				
Total actuarial losses recognised	**(99 8)**	**(6 2)**	**(2 5)**	**(108 5)**
2009				
Total actuarial (losses)/gains recognised	(20 8)	1 7	3 4	(15 7)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £232 0 million (2009 cumulative losses of £123 5 million)

Notes to the group financial statements continued

21 Pension commitments continued

(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
2010 profit and loss account				
Current service cost	**(7 6)**	**-**	**(0 2)**	**(7 8)**
Past service cost (included within exceptional costs)	**(1 1)**	**-**	**-**	**(1.1)**
Charge to operating profit (see note 10)	**(8 7)**	**-**	**(0 2)**	**(8 9)**
Expected return on pension scheme assets	**33 0**	**-**	**0 5**	**33 5**
Interest on pension scheme liabilities	**(44 6)**	**(2 6)**	**(0 8)**	**(48 0)**
Amount charged to other finance charges (see note 7)	**(11 6)**	**(2 6)**	**(0 3)**	**(14 5)**
Charge to profit on ordinary activities before taxation	**(20 3)**	**(2 6)**	**(0 5)**	**(23 4)**

	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 10)	(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 (see note 7)	(4 6)	(2 7)	(0 4)	(7 7)
Charge to profit on ordinary activities before taxation	(17 8)	(2 7)	(0 8)	(21 3)

(g) Historical information

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	**(1,008 5)**	(773 4)	(838 0)	(771 3)	(758 3)
Plan assets	**812 4**	674 6	751 2	748 6	708 2
Deficit	**(196 1)**	(98 8)	(86 8)	(22 7)	(50 1)
Experience adjustments on plan assets					
Amount (£m)	**96 0**	(121 7)	(44 4)	(1 7)	77 6
Experience adjustments on plan liabilities					
Amount (£m)	**(19 0)**	12 9	(37 2)	(2 9)	29 5

22 Commitment under operating leases

At 31 March 2010 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			
	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**-**	**0 4**	-	0 2
Within two and five years	**0 6**	**1 7**	0 2	2 5
After five years	**2 0**	**-**	2 5	-
	2 6	**2 1**	2 7	2 7

23 Called up share capital

	Group and company	
	2010 £m	2009 £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

Notes to the group financial statements continued

24 Movement in shareholder's funds

Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2009	860 0	609 9	**1,469 9**
Total recognised gains and losses for the year	-	266 9	**266 9**
Dividend paid and committed	-	(280 8)	**(280 8)**
At 31 March 2010	**860 0**	**596 0**	**1,456 0**

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2009	860 0	567 3	**1,427 3**
Profit for the financial year	-	344 3	**344 3**
Actuarial loss recognised in the pension scheme	-	(108 5)	**(108 5)**
Movement on current tax relating to the actuarial loss in the pension scheme	-	3 1	**3 1**
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	27 2	**27 2**
Dividend paid and committed	-	(280 8)	**(280 8)**
At 31 March 2010	**860 0**	**552 6**	**1,412 6**

25 Contingencies

At 31 March 2010 £137 5 million (2009 £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 £11 2 million (2009 £nil) has been recognised for payment to AWG Group Limited for the utilisation of ACT No further provision has been recognised in the group accounts as it is uncertain whether further ACT will be utilised (i e it is not probable that a transfer of economic benefits will be required to settle the obligation)

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, which at 31 March 2010 amounted to £5,157 9 million (2009 £5,406 7 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 2010

There are no other material contingent liabilities at 31 March 2010 for which provision has not been made in these financial statements

26 Events after balance sheet date

The final dividend for 2009/10 of £210 0 million was approved by the board on 26 May 2010

27 Ultimate parent company

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

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the company

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 undertaking Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management (IFM), and 3i

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 2010 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 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew J Lynn BSc FCA (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Birmingham
27 May 2010

Regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 103 to 129 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 133

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
- 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 418 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 112)

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 106 and 108 A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 116 and 117 Other current cost disclosures appear on pages 118 to 128 Additional information required by the Licence is shown on pages 110 to 115

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 109

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

Business Review
Financial Performance
Directors' Report
Statutory Accounts
Regulatory Accounts

Regulatory historical cost profit and loss account

for the year ended 31 March

	2010			2009		
	Appointed £m	**Non-appointed £m**	**Total £m**	Appointed £m	Non-appointed £m	Total £m
Turnover	**1,086 4**	**13 4**	**1,099 8**	1,024 7	12 7	1,037 4
Operating costs (before exceptional costs)	**(379 7)**	**(7 0)**	**(386 7)**	(358 7)	(6 7)	(365 4)
Historical cost depreciation	**(241 3)**	**(0 4)**	**(241 7)**	(228 0)	(0 3)	(228 3)
Exceptional operating costs	**(8 8)**	**-**	**(8 8)**	-	-	-
Operating income	**0 6**	**-**	**0 6**	1 9	-	1 9
Operating profit	**457 2**	**6 0**	**463 2**	439 9	5 7	445 6
Net interest payable	**(67 3)**	**-**	**(67 3)**	(132 1)	-	(132 1)
Profit on ordinary activities before taxation	**389 9**	**6 0**	**395 9**	307 8	5 7	313 5
Taxation						
– current tax	**(51 1)**	**(1 7)**	**(52 8)**	(40 2)	(1 6)	(41 8)
– deferred tax	**1 1**	**-**	**1 1**	28 8	-	28 8
Profit on ordinary activities after taxation	**339 9**	**4 3**	**344 2**	296 4	4 1	300 5
Dividends	**(276 5)**	**(4 3)**	**(280 8)**	(289 5)	(4 1)	(293 6)
Retained profit for the year	**63 4**	**-**	**63 4**	6 9	-	6 9

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

for the year ended 31 March

	2010 £m	2009 £m
Profit on ordinary activities after taxation	**339 9**	296 4
Actuarial losses recognised in the pension scheme	**(108 4)**	(15 7)
Movement on current tax relating to the actuarial loss in the pension scheme	**3 1**	1 0
Movement on deferred tax relating to the actuarial loss in the pension scheme	**27 2**	3 4
Total recognised gains and losses for the year	**261 8**	285 1

Regulatory historical cost balance sheet

as at 31 March

	2010			2009		
	Appointed £m	Non-appointed £m	Total £m	Appointed £m	Non-appointed £m	Total £m
Fixed assets						
Tangible assets	**4,611 9**	**0 5**	**4,612 4**	4,510 9	0 6	4,511 5
Investments	**1,609 1**	**-**	**1,609 1**	1,609 1	-	1,609 1
Total fixed assets	**6,221 0**	**0 5**	**6,221 5**	6,120 0	0 6	6,120 6
Current assets						
Stocks	**10 1**	**-**	**10 1**	12 8	-	12 8
Debtors	**311 5**	**-**	**311 5**	559 2	-	559 2
Cash at bank and in hand	**162 4**	**1 7**	**164 1**	227 2	1 6	228 8
Investments and short-term deposits	**473 9**	**-**	**473 9**	345 9	-	345 9
Infrastructure renewals prepayment	**45 7**	**-**	**45 7**	56 4	-	56 4
Total current assets	**1,003 6**	**1 7**	**1,005 3**	1,201 5	1 6	1,203 1
Creditors amounts falling due within one year						
Short-term borrowings	**(2 5)**	**-**	**(2 5)**	(300 4)	-	(300 4)
Other creditors	**(370 8)**	**(2 2)**	**(373 0)**	(345 3)	(0 6)	(345 9)
Corporation tax payable	**(75 8)**	**-**	**(75 8)**	(93 7)	(1 6)	(95 3)
Total creditors	**(449 1)**	**(2 2)**	**(451 3)**	(739 4)	(2 2)	(741 6)
Net current assets	**554 5**	**(0 5)**	**554 0**	462 1	(0 6)	461 5
Total assets less current liabilities	**6,775 5**	**-**	**6,775 5**	6,582 1	-	6,582 1
Creditors amounts falling due after more than one year						
Loans and other borrowings	**(5,029 7)**	**-**	**(5,029 7)**	(4,900 3)	-	(4,900 3)
Other creditors	**(6 2)**	**-**	**(6 2)**	-	-	-
Total creditors	**(5,035 9)**	**-**	**(5,035 9)**	(4,900 3)	-	(4,900 3)
Provisions for liabilities and charges						
Deferred tax provision	**(28 0)**	**-**	**(28 0)**	(29 1)	-	(29 1)
Other provisions	**(23 0)**	**-**	**(23 0)**	(20 8)	-	(20 8)
Deferred income – grants and contributions	**(134 8)**	**-**	**(134 8)**	(133 5)	-	(133 5)
Defined benefit pension scheme liabilities	**(141 2)**	**-**	**(141 2)**	(71 1)	-	(71 1)
	(327 0)	**-**	**(327 0)**	(254 5)	-	(254 5)
Net assets employed	**1,412 6**	**-**	**1,412 6**	1,427 3	-	1,427 3
Capital and reserves						
Called up share capital	**860 0**	**-**	**860 0**	860 0	-	860 0
Profit and loss account	**552 6**	**-**	**552 6**	567 3	-	567 3
Capital and reserves	**1,412 6**	**-**	**1,412 6**	1,427 3	-	1,427 3

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

	2010 £m Statutory UK GAAP	2010 £m Regulatory	Explanation
Profit and loss account			
Operating profit	**463 2**	**463 2**	No difference
Profit before tax	**395 9**	**395 9**	No difference
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	**4,658 1**	**4,612 4**	The difference of £45 7 million 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 in accordance with Regulatory Accounting Guidance 3 06
Current assets			
Infrastructure renewals prepayment	**-**	**45 7**	
Current assets			
Investments and short-term deposits	**63 5**	**473 9**	Deposits with a maturity of greater than one day but less than three months of £410 4 million 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 5**	**164 1**	
Deferred income – grants and contributions			
Short-term and long-term other creditors	**(134 8)**	**-**	Deferred grants and contributions within the statutory accounts are analysed between creditors amounts falling due within one year (£7 4 million) and amounts falling due after more than one year (£127 4 million) This is in contrast to the regulatory accounts, which show total deferred grants and contributions of £134 8 million within provisions for liabilities and charges
Provisions for liabilities and charges	**-**	**(134 8)**	

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 105, 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
- 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 (e g 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 (e g 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 Managing Director is set by the Anglian Water Group Remuneration Committee who also reviews 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 against Anglian Water's overall performance targets For the year ended 31 March 2010 the results for the year (financial and non-financial) resulted in the following performance assessment against the overall company target

	2010 actual %	**2010 target %**	2009 actual %	2009 target %
Financial performance	**50 5**	**55 0**	24 9	55 0
Capital delivery index	**15 0**	**15 0**	15 0	15 0
Overall performance assessment (OPA)	**20 0**	**20 0**	20 0	20 0
Customer service index (CSI)	**10 0**	**10 0**	10 0	10 0
	95 5	**100 0**	69 9	100 0

Capital delivery, OPA and CSI targets were exceeded The target score for the OPA was 405 and the assessment for this is based on submissions in the June Return 2010 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

Performance bonuses linked to the standards of performance of the company, and paid by the company or other group companies to Directors are as follows

	2010 £ 000	2009 £ 000
J Cox	**434 1**	364 5
S Longhurst	**196 5**	150 1
P Simpson	**217 4**	98 9
J Spencer	**72 1**	63 7
C Newsome	**79 1**	62 4

The following Directors received benefits under long-term incentive schemes Each scheme covers a period of three years and is linked to a basket of financial and non-financial performance measures including the business plan, operational performance and return on investment Against the performance targets set for the 2007 Long-term Incentive Plan (LTIP), 97 5 per cent was achieved

	2010 £'000	2009 £ 000
P Simpson	**182 8**	-
J Spencer	**98 3**	-
C Newsome	**102 2**	-

The long-term incentive schemes for Mr Cox and Mr Longhurst are entirely linked to the performance of Anglian Water Group Limited and are not paid for by the company

Additional information required by the licence continued

2 Link between Directors' pay and standards of performance continued

For 2010/11 a similar arrangement exists for performance bonuses The element which relates to company performance is made up as follows

	2010/11 performance targets %
Financial performance	55 0
Capital delivery index	15 0
Overall performance assessment (OPA)	20 0
Levels of service	5 0
VSAT ('Very Satisfied')	5 0
	100 0

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

The overall company's performance is measured by the five 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 the series of metrics that cover customer service and water and wastewater quality and compliance This continues to be an effective way of measuring the company's overall operational performance We have also introduced VSAT, which measures the number of very satisfied external customers in advance of Ofwat introducing the new Service Incentive Mechanism (SIM) The Levels of service measures the number of jobs the company completes within specified timescales

The Directors have at least 50 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

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 2010

Sums borrowed including accrued indexation by the appointee from Anglian Water Services Financing Plc, its financing subsidiary at 31 March 2010, 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	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 (v)	75 0	2017/2040	5 500
Fixed rate	394 0	2016	6 940
Fixed rate	25 0	2034	6 875
Fixed rate	100 0	2024	6 750
Index linked (ii)	194 1	2020	4 125
Index linked (ii)	246 6	2032	3 070
Index linked (ii)	74 5	2032	3 070
Index linked (ii)	92 5	2024	3 666
Index linked (ii)	459 9	2035	2 400
Index linked (ii)	55 9	2046	1 700
Index linked (ii)	55 3	2046	1 700
Index linked (ii)	44 4	2056	1 7146
Index linked (ii)	55 4	2056	1 6777
Index linked (ii)	66 5	2049	1 7903
Index linked (ii)	111 8	2057	1 3784
Index linked (ii)	55 9	2056	1 3825
Index linked (ii)	80 6	2062	1 4490
Index linked (ii)	53 7	2055	1 5200
Index linked (ii)	51 3	2019	1 626
Index linked (ii)	50 5	2020	1 300
Floating rate	250 0	2015	LIBOR plus 0 375
Floating rate	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	100 0	2057	LIBOR plus 0 340
Index-linked swaps (iii), (iv)	55 1	2013	-
Index-linked swaps (iii), (iv)	37 0	2024	-
Index-linked swaps (iii), (iv)	43 2	2030	-
Index-linked swaps (iii), (iv)	11 7	2057	-
Index-linked swaps (iii), (iv)	4 9	2030	-
Index-linked swaps (iii), (iv)	1 8	2043	-
Swaption	-	2016	-
Swaption	-	2016	-
	4,985 4		

LIBOR is the London Inter Bank Offer Rate

Additional information required by the licence continued

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

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

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

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

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

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

(b) Dividends payable
A dividend of £276 5 million is payable for the year (2009 £289 5 million) Of this dividend, £193 1 million (2009 £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 112) 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 regulatory capital value (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 2010 amounted to £5,157 9 million (2009 £5,406 7 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 2010 (2009 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 2
Human Resources and payroll charges	AWG Central Services Limited	Actual costs	0 2
Corporate responsibility and communications	AWG Central Services Limited	Actual costs	0 2
Treasury charges	AWG Central Services Limited	Actual costs	0 4
Laboratory charges	AWG Central Services Limited	Actual costs	0 1
IT charges	AWG Central Services Limited	Actual costs	0 2
Accommodation charges	AWG Central Services Limited and AWG Group Limited	Actual costs	0 2
Land rental	Alpheus Environmental Ltd	Actual costs	0 1
Trade effluent charges	Alpheus Environmental Ltd	Actual costs	0 1
Transport services	AWG Group Limited and Alpheus Environmental Ltd	Actual costs	0 2

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	1 4
Internal audit services	AWG Central Services Limited	-	Negotiated	0 7
Insurance administration	AWG Central Services Limited	-	Negotiated	0 5
Taxation services	AWG Central Services Limited	-	Negotiated	0 3
External audit services	AWG Central Services Limited	-	Pass through	0 2
Pension admin, advice and audit	AWG Central Services Limited	-	Pass through	0 4
10-year office lease	Ambury Developments	0 5	Other market testing	0 2
Rental of office accommodation	Ambury Developments	0 5	Other market testing	0 2
Rental of office accommodation	AWG Group Limited	-	Other market testing	0 1
Tax[1]	AWG Group Limited	-	Surrender of group tax losses	59 7
				63 7

There were no amounts capitalised by the appointed business for the year ended 31 March 2010 (2009 £0 7 million) Amounts capitalised in the prior year relate primarily to services provided by Morrison Utility Services Limited This company ceased to be an associated company from May 2008

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

(e) Charitable and political donations

During the year the company made no payment (2009 £0 75 million) to the Anglian Water Trust Fund which ceased operation Instead the company made available £0 75 million to the Anglian Water Assistance Fund, which paid a total of £0 4 million directly to customers who qualified for assistance, and that amount is included as an operating cost in these 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		2010 Appointed £m	2009 Appointed £m
2	**Turnover**	**1,086 4**	1,024 7
4	Current cost operating costs	**(742 1)**	(673 0)
3	Operating income	**0.3**	(0 4)
		344.6	351 3
3 9	Working capital adjustment	**(1.5)**	-
	Current cost operating profit	**343.1**	351 3
	Net interest payable	**(67.4)**	(132 1)
9	Financing adjustment	**16 8**	(0 8)
	Current cost profit before taxation	**292 5**	218 4
	Current tax	**(51 1)**	(40 2)
	Deferred tax	**1 1**	28 8
	Current cost profit attributable to shareholder	**242 5**	207 0
	Dividends	**(276.5)**	(289 5)
8	**Current cost loss for the year**	**(34 0)**	(82 5)

The notes on pages 119 to 128 form part of these current cost financial statements

Current cost balance sheet for the appointed business

as at 31 March

Notes		2010 £m	2009 £m
	Fixed assets		
5	Tangible assets	**28,264 0**	23,010 3
	Third-party contributions since 31 March 1990	**(851 4)**	(803 2)
		27,412 6	22,207 1
6	Working capital	**51 1**	32 6
	Cash at bank and in hand	**162 4**	227 2
	Investments and short-term deposits	**473 9**	345 9
	Infrastructure renewals prepayment	**45 7**	56 4
	Net operating assets	**28,145 7**	22,869 2
	Non-operating assets and liabilities		
7	Short-term borrowings	**(2 5)**	(300 4)
	Non-trade debtors	**3 0**	299 2
	Non-trade creditors due within one year	**(103 3)**	(105 1)
	Investments – loan to group company	**1,609 1**	1,609 1
	Corporation tax payable	**(75 8)**	(93 7)
	Total non-operating assets and liabilities	**1,430 5**	1,409 1
	Creditors amounts falling due after more than one year		
7	Loans and other borrowings	**(5,029 7)**	(4,900 3)
	Other creditors	**(6 2)**	-
	Total creditors falling due after more than one year	**(5,035 9)**	(4,900 3)
	Provisions for liabilities and charges		
	Deferred tax	**(28 0)**	(29 1)
	Defined benefit pension scheme liabilities	**(141 2)**	(71 1)
	Other provisions	**(23 0)**	(20 8)
	Total provisions	**(192 2)**	(121 0)
	Net assets	**24,348 1**	19,257 0
	Capital and reserves		
	Called up share capital	**860 0**	860 0
8	Profit and loss account	**(457 9)**	(345 8)
9	Current cost reserve	**23,946 0**	18,742 8
	Total capital and reserves	**24,348 1**	19,257 0

The notes on pages 119 to 128 form part of these current cost financial statements

The financial statements were approved by the board of Directors on 21 June 2010 and signed on its behalf by

Peter Simpson
Director

Scott Longhurst
Director

Current cost cash flow statement

for the year ended 31 March

Notes		2010 Appointed £m	2010 Non-appointed £m	2010 Total £m	2009 Appointed £m	2009 Non-appointed £m	2009 Total £m
10(a)	**Net cash inflow from operating activities**	**652 7**	**6 1**	**658 8**	624 8	5 7	630 5
	Returns on investment and servicing of finance						
	Interest received	**196 1**	-	**196 1**	212 7	-	212 7
	Interest paid	**(227 3)**	-	**(227 3)**	(221 5)	-	(221 5)
	Interest element of finance lease rental payments	**(3 4)**	-	**(3 4)**	(3 7)	-	(3 7)
	Net cash outflow from returns on investments and servicing of finance	**(34 6)**	-	**(34 6)**	(12 5)	-	(12 5)
	Taxation						
	Corporation tax (paid)/received	**(1 4)**	**(1 7)**	**(3 1)**	6 5	-	6 5
	Payments to other Anglian Water Group Limited group undertakings	**(58 2)**	-	**(58 2)**	(13 6)	(2 0)	(15 6)
	Taxation	**(59 6)**	**(1 7)**	**(61 3)**	(7 1)	(2 0)	(9 1)
	Capital expenditure and financial investment						
	Gross cost of purchase of tangible fixed assets	**(289 0)**	-	**(289 0)**	(359 6)	-	(359 6)
	Receipts of grants and contributions	**19 8**	-	**19 8**	24 3	-	24 3
	Infrastructure renewals expenditure	**(64 3)**	-	**(64 3)**	(72 5)	-	(72 5)
	Disposal of fixed assets	**0 2**	-	**0 2**	2 0	-	2 0
	Net cash outflow from investing activities	**(333 3)**	-	**(333 3)**	(405 8)	-	(405 8)
	Equity dividends paid	**(276 5)**	**(4 3)**	**(280 8)**	(289 0)	(4 1)	(293 1)
	Management of liquid resources						
	Net cash inflow/(outflow) from management of liquid resources	**172 4**	-	**172 4**	(41 7)	-	(41 7)
	Net cash inflow/(outflow) before financing	**121 1**	-	**121 1**	(131 3)	(0 4)	(131 7)
	Financing						
	Increase in loans	**204 6**	-	**204 6**	534 1	-	534 1
	Repayment of amounts borrowed	**(388 3)**	-	**(388 3)**	(238 2)	-	(238 2)
	Capital element in finance lease rentals	**(2 2)**	-	**(2 2)**	(2 9)	-	(2 9)
	Net cash inflow from financing	**(185 9)**	-	**(185 9)**	293 0	-	293 0
	(Decrease)/increase in cash	**(64 8)**	**0 1**	**(64 7)**	161 7	(0 4)	161 3

The notes on page 128 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 includes all amounts billed to customers in respect of those items detailed in the accounting policy on page 110 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

Notes to the current cost financial statements continued

1 Accounting policies continued

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

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

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

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

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

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

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

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

2 Turnover for the appointed business

	2010			2009		
	Water service £m	**Sewerage service £m**	**Appointed total £m**	Water service £m	Sewerage service £m	Appointed total £m
Measured	**263 0**	**381 2**	**644 2**	241 5	339 4	580 9
Unmeasured	**136 9**	**218 7**	**355 6**	137 4	219 5	356 9
Trade effluent	**-**	**7 2**	**7 2**	-	7 8	7 8
Large user and special agreement	**31 4**	**27 6**	**59 0**	30 7	28 4	59 1
Non-potable large user and special agreement	**10 9**	**-**	**10 9**	10 0	-	10 0
Rechargeable works	**0 5**	**-**	**0 5**	0 8	-	0 8
Bulk supplies/inter-company payments	**5 9**	**1 6**	**7 5**	6 3	1 3	7 6
Third-party services (including non-potable water)	**17 3**	**1 6**	**18 9**	17 1	1 3	18 4
Other sources	**1 4**	**0 1**	**1 5**	1 4	0 2	1 6
Total turnover	**450 0**	**636 4**	**1,086 4**	428 1	596 6	1,024 7

3 Operating income and working capital adjustment for the appointed business

	2010			2009		
	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 2**	**0 3**	0 1	(0 5)	(0 4)
Working capital adjustment	**(0 7)**	**(0 8)**	**(1 5)**	-	-	-

Notes to the current cost financial statements continued

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

	2010 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 2	6 8	14 0	10 4	19 3	11 3	30 6	41 0
Power	16 1	11 7	27 8	7 7	24 7	1 2	25 9	33 6
Hired and contracted services	3 2	9 4	12 6	5 3	8 5	13 1	21 6	26 9
Materials and consumables	4 3	1 8	6 1	2 3	7 0	11 0	18 0	20 3
Services charges	10 9	-	10 9	1 2	5 4	-	5 4	6 6
Bulk supply imports	1 2	-	1 2	-	-	-	-	-
Other direct costs	0 1	0 4	0 5	0 4	0 5	0 2	0 7	1 1
Total direct costs	43 0	30 1	73 1	27 3	65 4	36 8	102 2	129 5
General and support expenditure	9 2	8 2	17 4	5 7	12 5	7 4	19 9	25 6
Total functional expenditure	52 2	38 3	90 5	33 0	77 9	44 2	122 1	155 1
Business activities								
Customer services			13 9					17 7
Scientific services			6 1					3 8
Other business activities			2 1					3 7
Total business activities			22 1					25 2
Rates			28 0					18 3
Doubtful debts			16 0					19 7
Exceptional items			1 1					7 7
Total less third-party services			157 7					226 0
Third-party services			4 2					0 6
Total operating costs			161 9					226 6
Capital costs								
Infrastructure renewals charge	4 1	39 1	43 2	31 8	-	-	-	31 8
Depreciation[1] (allocated)	55 4	27 4	82 8	40 2	123 3	20 7	144 0	184 2
Amortisation of deferred grants			(2 7)					(4 8)
Business activities depreciation[1] (non allocated)			5 7					8 5
Capital maintenance excluding third-party services			129 0					219 7
Third-party services – capital maintenance			3 8					1 1
Total capital maintenance			132 8					220 8
Total operating costs[2]			294 7					447 4
Current cost accounting (modern equivalent asset values)								
Service activities	1,174 9	6,754 5	7,929 4	18,270 5	1,870 0	194 1	2,064 1	20,334 6
Business activities			(12 3)					(18 5)
Service totals			7,917 1					20,316 1
Service assets for third parties			(55 7)					(8 4)
Total			7,861 4					20,307 7

[1] On a current cost basis
[2] Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £13 2 million
This is split £9 5 million water distribution and £3 7 million sewerage

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 costs[2]			**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

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 2009	2,136 7	14 2	6,017 8	287 6	8,456 3
AMP adjustment	313 0	2 0	408 0	(117 5)	605 5
RPI adjustment	109 0	0 7	285 9	7 5	403 1
Disposals	-	-	-	(0 2)	(0 2)
Additions	90 6	0 5	30 1	13 9	135 1
At 31 March 2010	**2,649 3**	**17 4**	**6,741 8**	**191 3**	**9,599.8**
Depreciation					
At 1 April 2009	1,236 0	3 7	-	248 7	1,488 4
AMP adjustment	152 6	0 5	-	(130 9)	22 2
RPI adjustment	61 8	0 2	-	5 7	67 7
Disposals	-	-	-	(0 1)	(0 1)
Charge for the year	68 1	0 2	-	23 9	92 2
At 31 March 2010	**1,518 5**	**4 6**	**-**	**147 3**	**1,670 4**
Net book amount at 31 March 2010	**1,130 8**	**12 8**	**6,741 8**	**44 0**	**7,929.4**
Net book amount at 1 April 2009	900 7	10 5	6,017 8	38 9	6,967 9
(b) Fixed assets by type – sewerage service					
Gross replacement cost					
At 1 April 2009	5,688 9	17 7	13,526 2	390 7	19,623 5
AMP adjustment	13 5	0 1	3,596 6	(126 0)	3,484 2
RPI adjustment	253 7	0 8	761 6	11 8	1,027 9
Disposals	(0 3)	-	-	(0 3)	(0 6)
Additions	91 2	0 7	38 1	20 9	150 9
At 31 March 2010	**6,047 0**	**19 3**	**17,922 5**	**297 1**	**24,285 9**
Depreciation					
At 1 April 2009	3,235 6	4 1	-	341 4	3,581 1
AMP adjustment	176 7	0 2	-	(159 8)	17 1
RPI adjustment	151 8	0 2	-	7 5	159 5
Disposals	-	-	-	(0 3)	(0 3)
Charge for the year	168 9	0 3	-	24 7	193 9
At 31 March 2010	**3,733 0**	**4 8**	**-**	**213 5**	**3,951 3**
Net book amount at 31 March 2010	**2,314 0**	**14 5**	**17,922 5**	**83 6**	**20,334 6**
Net book amount at 1 April 2009	2,453 3	13 6	13,526 2	49 3	16,042 4
(c) Fixed assets by type – total					
Gross replacement cost					
At 1 April 2009	7,825 6	31 9	19,544 0	678 3	28,079 8
AMP adjustment	326 5	2 1	4,004 6	(243 5)	4,089 7
RPI adjustment	362 7	1 5	1,047 5	19 3	1,431 0
Disposals	(0 3)	-	-	(0 5)	(0 8)
Additions	181 8	1 2	68 2	34 8	286 0
At 31 March 2010	**8,696 3**	**36 7**	**24,664 3**	**488 4**	**33,885 7**
Depreciation					
At 1 April 2009	4,471 6	7 8	-	590 1	5,069 5
AMP adjustment	329 3	0 7	-	(290 7)	39 3
RPI adjustment	213 6	0 4	-	13 2	227 2
Disposals	-	-	-	(0 4)	(0 4)
Charge for the year	237 0	0 5	-	48 6	286 1
At 31 March 2010	**5,251 5**	**9 4**	**-**	**360 8**	**5,621 7**
Net book amount at 31 March 2010	**3,444 8**	**27 3**	**24,664 3**	**127 6**	**28,264 0**
Net book amount at 1 April 2009	3,354 0	24 1	19,544 0	88 2	23,010 3

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 2008 as part of the Price Review 2009 In accordance with the RD01/10 letter published by the Office of Water Services the revised amounts have been reflected in the regulatory accounts this year

(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 2010 per regulatory financial statements	33,885 7
Adjustment to opening balance at 31 March	(25,976 7)
Infrastructure renewals expenditure capitalised in the year	64 3
At 31 March 2010 per statutory financial statements	**7,973 3**
Grants and contributions	
At 31 March 2010 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(241 5)
At 31 March 2010 per statutory financial statements	**(241 5)**
Depreciation	
At 31 March 2010 per regulatory financial statements	(5,621 7)
Adjustment to opening balance at 31 March	2,623 0
Depreciation charge for infrastructure renewals expenditure	(75 0)
At 31 March 2010 per statutory financial statements	**(3,073 7)**
Net book value	
At 31 March 2010 per regulatory financial statements	28,264 0
Adjustment to opening balance at 31 March	(23,595 2)
Infrastructure renewals expenditure capitalised in the year	64 3
Depreciation charge for infrastructure renewals expenditure	(75 0)
At 31 March 2010 per statutory financial statements	**4,658 1**
Infrastructure renewals prepayment	
At 31 March 2010 per regulatory financial statements	45 7
Less infrastructure renewals prepayment	(45 7)
At 31 March 2010 per statutory financial statements	-

Notes to the current cost financial statements continued

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6 Working capital

	2010 £m	2009 £m
Stocks	**10.1**	12 8
Trade debtors – measured household	**79 4**	57 0
Trade debtors – unmeasured household	**59 2**	42 7
Trade debtors – measured non-household	**18 3**	20 8
Trade debtors – unmeasured non-household	**0 4**	0 2
Other trade debtors	**13 4**	12 7
Measured income accrual	**121 4**	111 7
Prepayments and other debtors	**16 5**	14 9
Trade creditors	**(79 8)**	(81 2)
Deferred income – customer advance receipts	**(125 1)**	(110 0)
Short-term capital creditors	**(32 9)**	(34 7)
Accruals and other creditors	**(29 8)**	(14 3)
Total working capital	**51 1**	32 6

7 Net debt analysis

Interest rate risk profile at 31 March 2010	Total £m	Index linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	**(2 5)**	**-**	**-**	**(2 5)**
Between one and two years	**(141 3)**	**-**	**-**	**(141 3)**
Between two and five years	**(623 6)**	**(313 0)**	**(195 1)**	**(115 5)**
Between five and 20 years	**(1,856 7)**	**(674 3)**	**-**	**(1,182 4)**
In more than 20 years	**(2,408 1)**	**(1,705 9)**	**(85 0)**	**(617 2)**
Total borrowings	**(5,032 2)**	**(2,693 2)**	**(280 1)**	**(2,058 9)**
Cash	**162 4**			
Short-term deposits	**473 9**			
Net debt	**(4,395 9)**			

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 20 years	(1,808 6)	(451 7)	(195 1)	(1,161 8)
In more than 20 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)			

8 Current cost profit and loss account

	2010 £m	2009 £m
At beginning of the year	**(345 8)**	(252 0)
Loss for the year	**(34 0)**	(82 5)
	(379 8)	(334 5)
Actuarial losses recognised in pension scheme	**(108 4)**	(15 7)
Movement on current tax relating to the actuarial loss in the pension scheme	**3 1**	1 0
Movement on deferred tax relating to the actuarial loss in the pension scheme	**27 2**	3 4
At end of year	**(457 9)**	(345 8)

9 Movement on current cost reserve

	2010 £m	2009 £m
At beginning of the year	**18,742 8**	18,825 8
AMP adjustment	**4,050 4**	-
RPI adjustments		
– Fixed assets	**1,203 8**	(86 7)
– Working capital	**1 5**	-
– Financing	**(16 8)**	0 8
– Grants and third-party contributions	**(35 7)**	2 9
At end of year	**23,946 0**	18,742 8

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 2008 as part of the Price Review 2009 In accordance with the RD01/10 letter published by the Office of Water Services the revised amounts have been reflected in the regulatory accounts this year

Notes to the current cost financial statements continued

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

	2010 £m	2009 £m
Current cost operating profit	**343 1**	351 3
Working capital adjustment	**1 5**	-
Movement in working capital	**(19 4)**	(28 4)
Current cost depreciation	**278 6**	239 3
Current cost (profit)/loss on sale of fixed assets	**(0 3)**	0 4
Infrastructure renewals charge	**75 0**	75 0
Difference between pension charge and cash contributions	**(25 6)**	(11 4)
Net movement in provisions	**(0 2)**	(1 4)
Net cash inflow from operating activities	**652 7**	624 8

10 (b) Analysis of net debt

	1 April 2009 £m	Cash flows £m	Non-cash movements £m	31 March 2010 £m
Cash	227 2	(64 8)	-	**162 4**
Deposits and investments	345 9	128 0	-	**473 9**
Finance leases due within one year	(2 1)	2 2	(2 6)	**(2 5)**
Finance leases due after one year	(60 2)	-	(2 0)	**(62 2)**
Other debt due within one year	(298 3)	388 3	(90 0)	**-**
Other debt due after one year	(4,840 1)	(203 1)	75 7	**(4,967 5)**
	(4,627 6)	**250 6**	**(18 9)**	**(4,395 9)**

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

Supplementary regulatory information

1 Regulatory capital value (RCV)

	2010 £m
Opening RCV for the year	**5,381 9**
Capital expenditure (excluding IRE)	**290 6**
Infrastructure renewals expenditure (IRE)	**70 7**
Grants and contributions	**(17 9)**
Depreciation	**(209 6)**
Infrastructure renewals charge	**(52 4)**
Outperformance of regulatory assumptions (5 years in arrears)	**(33 7)**
Closing RCV	**5,429 6**
Price review adjustments	
Logging up/down and shortfalls	**18 9**
Change in the notified index	**79 8**
Land sales	**(6 6)**
Closing RCV (post price review adjustments)	**5,521 7**
Average RCV	**5,285 7**

RCV figures are extracted from those published by Ofwat on 14 May 2009 in their RD06/09 letter at 2008/09 prices These have been indexed upwards to 2009/10 prices using an RPI factor of 220 7/211 3 (RPI at 31 March 2010/RPI at 31 March 2009) to give the current year figures in the table excluding average RCV The average RCV is derived by indexing the average RCV published in RD06/09 by the RPI factor of 215 8/214 8 (average RPI for the year ended 31 March 2010/average RPI for the year ended 31 March 2009) The indices that have been used to inflate the RCVs to 2009/10 prices have been extracted from those published by Ofwat on 14 May 2010 as per RD04/10

The table shows the RCV used in setting the price limits for 2009/10 The differences between the assumptions for the component parts such as capital expenditure shown above and the actual amounts do not affect the price limits in the current review period Capital efficiencies achieved in the current price-setting period will be taken into account in the calculation of the RCV used to set prices for the next review period Other adjustments to the RCV used for the next review period will be agreed with Ofwat through the process of logging up/logging down of capital expenditure The opening RCV for the year shown above is inflated from the closing RCV for the previous year by RPI

Independent auditors' report

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") for the year ended 31 March 2010 on pages 106 to 128 (the "Regulatory Accounts") 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 cost statement of total recognised gains and losses and the historical reconciliation between the statutory financial statements and the 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 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 ("Condition F") granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence") Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed

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

The Regulatory Accounts are separate from the statutory financial statements of the Company There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006

Respective responsibilities of the WSRA, the Directors and Auditors
The nature, form and content of the 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 104

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing 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' issued by the Institute of Chartered Accountants in England and Wales

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 116 to 128 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 Company's Regulatory Licence

Basis of audit opinion

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

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose Our audit report in relation to the statutory accounts of the Company was made solely to the Company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006 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 106 and 108 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 to the balance sheet drawn up under the Companies Act 2006 is given on page 109

Independent auditors' report continued

Opinion
In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2010 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 119 to 120, the state of the Company's affairs at 31 March 2010 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

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F,
- the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,
- the regulatory historical cost accounting statements on pages 106 to 108 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,
- the regulatory current cost accounting statements on pages 116 to 118 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Birmingham
21 June 2010

1 The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of WSRA's web site is the responsibility of the WSRA, 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 jurisdiction

Glossary of regulatory terms

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

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

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

Asset Management Plan (AMP) – A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets The plan runs for a five-year period AMP4 covers the investment period April 2005 to March 2010 and AMP5 covers the investment period April 2010 to March 2015

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

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

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

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

Licence – the Instrument of Appointment dated August 1989 under Sections 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

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

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

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

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

For more information

Online

Our website has a wealth of information
Visit **www anglianwater co uk**

Read our Strategic Direction Statement

We published our Strategic Direction Statement in December 2007 It details our strategy to deliver outstanding service, reliability and value for money for our customers in the period 2010 to 2035 Read or download our Strategic Direction Statement at **www.anglianwater co uk**

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