

# **ANGLIAN WATER SERVICES FINANCING PLC**

## **DIRECTORS' REPORT AND ACCOUNTS 2009**

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

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# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### directors' report

The directors present their report and the audited financial statements of Anglian Water Services Financing Plc for the year ended 31 March 2009.

### principal activity and business review

The principal activity of Anglian Water Services Financing Plc (the company) is the raising of listed debt to on-lend to Anglian Water Services Limited. The information that fulfils the requirement of the business review including development and performance of the company during the year and its position at the year end, principal risks and uncertainties faced by the company, Key Performance Indicators and the company's future outlook, can be found in the performance review on page 3 which includes comments on the financial results.

### results and dividends

The company's profit and loss account on page 7 shows the company's results for the year. For the financial year ending 31 March 2009 the company made a profit before taxation of £16.5 million (2008: £13.2 million). No dividend was paid during the year (2008: £nil). The directors are not recommending the payment of a final dividend (2008: £nil).

### directors

The current directors of the company are listed below:

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

All of the directors served throughout the year.

### charitable and political donations

There were no charitable or political donations during the year ended 31 March 2009 (2008: nil).

### financial risk management

Details are included in the performance review on page 3.

### Statement of disclosure of information to auditors

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

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

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### directors' report (continued)

#### auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue in office and a resolution proposing its re-appointment will be put to the Annual General Meeting.

By order of the board

#### **Claire Russell**

Company Secretary

27 May 2009

Registered Office:

Anglian House  
Ambury Road  
Huntingdon  
Cambridgeshire,  
PE29 3NZ  
United Kingdom

Registered in England and Wales No. 4330322

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### performance review

#### financial needs and resources

The company raised £444.1 million of new debt during the year as part of its ongoing funding requirement. The monies raised were on lent to Anglian Water Services Limited on a back-to-back basis. As at 31 March 2009 the company had cash and deposits amounting to £338.6 million, which primarily represents amounts on loan from Anglian Water Services Limited to enable the company to repay external debt falling due in the next financial year.

#### profit for the financial year

The company made a profit on ordinary activities after taxation of £16.5 million (2008: £13.2 million).

#### principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks, the principal risks being management of liquidity and interest rate exposure.

#### *liquidity*

The company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At the year-end the company held cash, deposits and current asset investments of £338.6 million (2008: £361.6 million) and had undrawn committed facilities of £225.0 million (2008: £225.0 million). These resources are maintained to ensure liquidity and the continuation of the Anglian Water Services Limited investment programme. The maturity profile of the company's borrowings is set out in note 11 to the accounts. In addition the company has access to £340.0 million (2008: £330.0 million) of 'liquidity facilities'; £264.0 million (2008: £254.0 million) to finance Anglian Water Services Limited debt service costs and £76.0 million (2008: £76.0 million) to finance Anglian Water Services Limited operating expenditure and maintenance capital expenditure. These facilities address the risk of Anglian Water Services Limited being in default of its debt obligations and having insufficient liquidity.

#### *interest rates*

The company's policy, as agreed by the Board, is to achieve a balanced mix of funding at indexed (to the Retail Price Index), fixed and floating rates of interest to appropriately address the risks in the business. This includes the use of interest rate swaps, to manage the company's exposure to interest rate fluctuations. At the year-end, taking into account interest rate swaps, 51.0 per cent (2008: 52.6 per cent) of the company's borrowings were at rates indexed to inflation, 42.5 per cent (2008: 37.9 per cent) were at fixed rates, and 6.5 per cent (2008: 9.5 per cent) were at floating rates.

#### *foreign currency*

The company has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The company 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 company has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the company.

#### *future outlook*

The company continues to monitor debt markets with a view to raising future funding to fulfil the requirements of Anglian Water Services Limited.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### key performance indicators ('KPIs')

Given the nature of the business, the directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

### 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the company and of the profit of the company 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 will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, as set out in note 1, 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 March 2009 and that applicable accounting standards have been followed.

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

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

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### independent auditors' report to the members of Anglian Water Services Financing Plc

We have audited the financial statements of Anglian Water Services Financing Plc for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Performance Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

#### basis of audit opinion

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

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

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Birmingham  
27 May 2009*

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### profit and loss account for the year ended 31 March 2009

Notes		2009 £m	2008 £m
1	<b>Turnover</b>	-	-
	Operating costs	-	-
	<b>Operating profit</b>	-	-
2	Interest payable and similar charges	<b>(315.5)</b>	(417.0)
2	Interest receivable and similar income	<b>332.0</b>	430.2
	Net interest receivable	<b>16.5</b>	13.2
	<b>Profit on ordinary activities before taxation</b>	<b>16.5</b>	13.2
3	Tax on profit on ordinary activities	-	-
	<b>Profit on ordinary activities after taxation for the financial year</b>	<b>16.5</b>	13.2

The results above arise from continuing operations.

The notes on pages 9 to 22 form part of these financial statements.

No statement of total recognised gains and losses has been presented, as all gains and losses have been included in the profit and loss account.

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.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### balance sheet as at 31 March

Notes		2009 £m	2008 £m
	<b>Fixed assets</b>		
6	Investments	4,952.8	4,765.3
11	Derivative Financial Instruments	737.5	391.9
		<b>5,690.3</b>	5,157.2
	<b>Current assets</b>		
11	Derivative Financial Instruments	133.9	34.5
7	Debtors	0.2	2.0
8	Investment – money market deposits	-	170.0
9	Cash at bank and in hand (including short-term deposits)	338.6	191.6
		<b>472.7</b>	398.1
	<b>Creditors: amounts falling due within one year</b>		
11	Short-term borrowings	(515.2)	(376.9)
11	Derivative Financial Instruments	(11.2)	(39.3)
10	Other creditors	(296.3)	(337.6)
		<b>(822.7)</b>	(753.8)
	Net current liabilities	<b>(350.0)</b>	(355.7)
	Total assets less current liabilities	<b>5,340.3</b>	4,801.5
	<b>Creditors: amounts falling due after more than one year</b>		
11	Loans and other borrowings	(4,891.5)	(4,448.7)
11	Derivative Financial Instruments	(406.3)	(326.8)
		<b>(5,297.8)</b>	(4,775.5)
	<b>Net assets</b>	<b>42.5</b>	26.0
	<b>Capital and reserves</b>		
12	Called up share capital	-	-
13	Profit and loss account	42.5	26.0
13	<b>Total shareholders' funds</b>	<b>42.5</b>	26.0

The notes on pages 9 to 22 form part of these financial statements.

The financial statements were approved by the board on 27 May 2009 and signed on its behalf by:

**Jonson Cox**  
Chief Executive

**Scott Longhurst**  
Group Finance Director

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements

#### 1. Accounting policies

The financial statements are prepared on a going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value, and in accordance with applicable accounting standards (UK GAAP) and with the Companies Act 1985.

The following principal accounting policies and estimation techniques have been consistently applied to the financial statements as stated.

##### a) Cash flow statement

The company is a wholly-owned subsidiary of Anglian Water Services Limited and is included in the consolidated financial statements of Anglian Water Services Limited. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1.

##### b) Related party transactions

The company has taken advantage of the exemption not to disclose transactions with other members of the group under Financial Reporting Standard (FRS) 8 "Related Party Disclosures" as it is a wholly owned subsidiary.

##### c) Investments

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

##### d) Financial instruments

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised and subsequently re-measured at fair value. However, within the company hedge accounting is not applied and therefore the movements in the fair value of these derivatives are included in the income statement within interest payable.

The company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms, thus resulting in net neutral impact on the income statement. Where there is no formal arrangement for replication of derivatives associated with specific debt items, the company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms, i.e. these are deemed back-to-back, thus resulting in net neutral impact on the income statement. Anglian Water Services Limited lends cash back to the company to provide the funds for the company to repay its external debt, normally 12 months in advance of debt falling due for payment.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 1. Accounting policies (continued)

##### e) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

##### f) Borrowings

Borrowings are recognised initially at fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

##### g) Dividends

Dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised in the period in which they are paid.

##### h) Current asset investments

Cash deposits with a maturity of greater than three months and within one year 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.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 2. Net Interest receivable

	2009	2008
	£m	£m
Interest payable and similar charges –		
Indexation on index linked loan stock	(92.4)	(94.5)
Interest payable on external loans	(233.3)	(218.9)
	<b>(325.7)</b>	(313.4)
Exchange movements on foreign currency debt	(302.1)	(125.5)
Fair value gains on external derivative financial instruments	312.3	21.9
	<b>(315.5)</b>	(417.0)
Interest receivable and similar income -		
Interest receivable from Anglian Water Services Limited	325.7	313.4
Management fee treated as interest receivable	0.2	0.2
(Losses)/gains on back to back arrangements with Anglian Water Services Limited	(10.2)	103.6
	<b>315.7</b>	417.2
Interest receivable from money market deposits	16.3	13.0
	<b>332.0</b>	430.2
Net interest receivable	<b>16.5</b>	13.2

The company holds RPI swaps to enable the group to hedge against RPI movement in the Regulated Capital Value (RCV) and revenues of Anglian Water. These RPI swaps do not qualify for hedge accounting under FRS 26 and consequently are held at fair value with movements taken to the income statement, however, it is the opinion of the directors that they remain highly effective economic hedges.

The company holds interest rate swaps and cross currency swaps to enable the group to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activity in the group. Within the company hedge accounting is not applied and therefore the movements in the fair value of these derivatives are included in the income statement. The company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms, thus resulting in net neutral impact on the income statement.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 3. Taxation

	2009 £m	2008 £m
<b>Tax on profit on ordinary activities comprises:</b>		
UK Corporation Tax at 28 per cent (2008: 30 per cent)	-	-

#### 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, 2008: 30 per cent)

The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before taxation	<b>16.5</b>	13.2
Profit on ordinary activities at the standard UK rate of tax (28 per cent, 2008: 30 per cent)	<b>4.6</b>	4.0
Effects of:		
Group relief not paid for	<b>(4.6)</b>	(4.0)
Current tax charge for the year	-	-

It has been agreed that companies within the Anglian Water Services Financing Group (AWSFG) will not pay each other for tax losses. The AWSFG consists of Anglian Water Services Limited, Anglian Water Services Financing Plc, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited.

#### 4. Employee information

The company has no employees. Anglian Water Services Limited employees carry out all the activities of the company.

#### directors' emoluments

None of the directors of the company received any emoluments during the year (2008: nil) for their services to the company.

#### 5. Auditors' remuneration

The auditors' remuneration for audit services is borne by Anglian Water Services Limited.

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 6. Fixed asset investments

Loans to immediate parent undertaking (Anglian Water Services Limited)

	£m
As at 1 April 2008	4,765.3
Increase in loans	444.1
Repayments of amounts borrowed	(238.2)
Movements on back to back loan arrangements with Anglian Water Services Limited	(18.4)
At 31 March 2009	<b>4,952.8</b>

As stated in the Directors' Report (see page 1) the company exists to raise debt for Anglian Water Services Limited. The company on-lends an equal amount to the sterling equivalent of each external bond raised (see note 11) to Anglian Water Services Limited on identical terms.

#### 7. Debtors: amounts falling due within one year

	2009 £m	2008 £m
Other debtors	<b>0.2</b>	2.0

#### 8. Investments – money market deposits

	2009 £m	2008 £m
Money market deposits (maturity date in excess of 3 months)	-	170.0

#### 9. Cash at bank and in hand

	2009 £m	2008 £m
Cash at bank and money market deposits (maturity date of greater than 1 day and less than 3 months)	<b>338.6</b>	191.6

#### 10. Other creditors

	2009 £m	2008 £m
Amounts owed to immediate parent undertakings	<b>296.3</b>	337.6

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 11. Loans, other borrowings and financial instruments

	2009 £m	2008 £m
<b>Loans and other borrowings</b>		
£100m 12.375% Fixed 2014 (c), (e)	<b>102.9</b>	102.8
£200m 6.875% Fixed 2023 (c), (e)	<b>208.4</b>	208.4
£200m 6.625% Fixed 2029 (c), (e)	<b>202.8</b>	202.8
£100m 5.5% Index Linked 2008 (a), (c), (e)	-	177.9
£150m 4.125% Index Linked 2020 (a), (c), (e)	<b>196.6</b>	189.4
EUR 350m 5.375% Fixed 2009 (c), (e)	<b>336.8</b>	289.6
USD 25m 7.07% Private Placement 2009 (c), (e)	<b>3.0</b>	4.4
USD 25m 2009 Mark to Market	-	0.1
USD 100m 7.01% Private Placement 2008 (c), (e)	-	51.0
USD 23m 7.13% Private Placement 2009 (c), (e)	<b>16.2</b>	11.8
USD 195m 7.23% Private Placement 2011 (c), (e)	<b>137.5</b>	99.6
EUR 650m 4.625% Fixed 2013 (c), (d)	<b>614.8</b>	528.5
£246m 6.293% Fixed 2030 (c), (e)	<b>256.4</b>	256.4
£275m 7.882% Fixed 2012/2037 <sup>1</sup> (b), (c), (e)	<b>289.5</b>	289.6
£250m 5.837% Fixed 2022 (c), (e)	<b>259.8</b>	259.8
£200m 3.07% Index Linked 2032 (a), (c), (e)	<b>249.5</b>	240.2
£60m 3.07% Index Linked 2032 (a), (c), (e)	<b>75.4</b>	72.1
£75m 3.666% Index Linked 2024 (a), (c), (e)	<b>93.6</b>	90.2
£250m 5.25% 2015 (c), (d)	<b>255.5</b>	255.5
£150m 5.5% 2017/2040 <sup>2</sup> (b), (c), (d)	<b>153.9</b>	153.9
£402m 2.4% index-linked 2035 (a), (c), (e)	<b>464.2</b>	450.0
£50m 1.7% Index-linked 2046 (a), (c), (e)	<b>55.8</b>	53.7
£50m 1.7% Index-linked 2046 (a), (c), (e)	<b>55.4</b>	53.6
£40m 1.7146% Indexation Bond 2056 (a), (c), (e)	<b>44.7</b>	43.1
£50m 1.6777% Indexation Bond 2056 (a), (c), (e)	<b>55.9</b>	53.9
£60m 1.7903% Indexation Bond 2049 (a), (c), (e)	<b>67.0</b>	64.6
£100m 1.3784% Indexation Bond 2057 (a), (c), (e)	<b>110.9</b>	105.1
£50m 1.3825% Indexation Bond 2056 (a), (c), (e)	<b>55.5</b>	52.5
£50m RBS Class B Authorised Loan Facility (c), (e)	<b>50.2</b>	50.5
£100m Class A Wrapped Floating Rate Bonds (c), (e)	<b>100.5</b>	101.0
£75m 1.449% Indexation Bond 2062 (a), (c), (e)	<b>79.0</b>	75.9
£50m 1.52% Indexation Bond 2055 (a), (c), (e)	<b>52.7</b>	50.7
JPY 15bn 2.925% Fixed Rate Bond 2018/2037 (c), (d)	<b>106.4</b>	76.4
£110m Class A Unwrapped Floating Rate Bond 2043 (c), (e)	<b>110.3</b>	110.6
JPY 5bn 3.22% Fixed Rate Bond 2038 (c), (d)	<b>35.6</b>	-
Euro 500m 6.25% Fixed Rate Bond 2016 (c), (e)	<b>484.6</b>	-
£25m 6.875% Private Placement 2034 (c), (e)	<b>25.4</b>	-
Total loans and other borrowings	<b>5,406.7</b>	4,825.6
Less amounts included in creditors falling due within one year	<b>(515.2)</b>	(376.9)
Loans and other borrowings falling due after more than one year	<b>4,891.5</b>	4,448.7

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 11. Loans, other borrowings and financial instruments (continued)

- a) The value of the capital and interest elements of the Index Linked Loans are linked to movements in the Retail Price Index. The increase in the capital value during the year of £62.0 million (2008: £67.5 million) has been taken to the profit and loss account as part of interest payable.
- b) Legal maturity of these instruments is the second of the two years quoted. Coupons increase for the first of the years quoted in accordance with the pricing terms agreed at issue.
- c) Under a security agreement dated 30 July 2002 between Anglian Water Services Financing Plc (AWSF), Anglian Water Services Limited (AWS), Anglian Water Services Overseas Holdings Limited (AWSOH), Anglian Water Services Holdings Limited (AWSH) and Deutsche Trustee Company Limited a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of AWS, AWSOH and AWSF. At 31 March 2009 this charge applies to £5,406.7 million (2008: £4,825.6 million) of the debt listed above.
- d) These instruments are exposed to fair value interest rate risk, before taking into account the impact of interest rate swaps.
- e) These instruments are exposed to cash flow interest rate risk before taking into account the impact of interest rate swaps.

<sup>1</sup> The coupon for this instrument will increase to Floating rate LIBOR + 6.0 per cent effective July 2012

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

## Anglian Water Services Financing Plc

### Directors' Report and Accounts 2009 notes to the financial statements (continued)

#### 11. Loans, other borrowings and financial instruments (continued)

##### Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

At 31 March	2009			2008		
	Assets at fair value through the profit and loss £m	Other financial Assets £m	Total £m	Assets at fair value through the profit and loss £m	Other financial assets £m	Total £m
<b>Assets as per balance sheet</b>						
Investment – money market deposits	-	-	-	-	170.0	170.0
Cash at bank and in hand	-	338.6	338.6	-	191.6	191.6
Investments – loan to immediate parent undertaking	-	4,952.8	4,952.8	-	4,765.3	4,765.3
Derivative financial instruments	871.4	-	871.4	426.4	-	426.4
<b>Total</b>	<b>871.4</b>	<b>5,291.4</b>	<b>6,162.8</b>	<b>426.4</b>	<b>5,126.9</b>	<b>5,553.3</b>

At 31 March	2009			2008		
	Liabilities at fair value through the profit and loss £m	Other financial liabilities £m	Total £m	Liabilities at fair value through the profit and loss £m	Other financial liabilities £m	Total £m
<b>Liabilities as per balance sheet</b>						
Borrowings	-	5,406.7	5,406.7	-	(4,825.6)	(4,825.6)
Derivative financial instruments	(417.5)	-	(417.5)	(366.1)	-	(366.1)
<b>Total</b>	<b>(417.5)</b>	<b>5,406.7</b>	<b>4,989.2</b>	<b>(366.1)</b>	<b>(4,825.6)</b>	<b>(5,191.7)</b>

# Anglian Water Services Financing Plc

## Directors' Report and Accounts 2009

### notes to the financial statements (continued)

#### 11. Loans, other borrowings and financial instruments (continued)

Derivative Financial Instruments	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps and swaptions	483.4	(29.5)	129.3	(69.0)
RPI swaps	388.0	(388.0)	297.1	(297.1)
	<b>871.4</b>	<b>(417.5)</b>	426.4	(366.1)

Derivative financial instruments can be analysed as follows:

Current	133.9	(11.2)	34.5	(39.3)
Non-current	737.5	(406.3)	391.9	(326.8)
	<b>871.4</b>	<b>(417.5)</b>	426.4	(366.1)

The effective interest rate at the balance sheet dates were as follows:

	2009	2008
Borrowings – GBP	6.0%	6.9%
Borrowings – USD	7.3%	7.2%
Borrowings – EUR	5.5%	6.8%
Borrowings - JPY	4.4%	6.9%

The weighted average interest costs at the balance sheet dates were as follows:

Fixed	7.0%	6.9%
Floating	3.4%	6.3%
Indexed	6.3%	7.0%

In accordance with FRS 26, 'Financial instruments: Measurement', Anglian Water Services Financing Plc has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the profit and loss account for gains and losses on embedded derivatives in the year ended 31 March 2009 (2008: £nil)

#### Interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2009 was £2,449.0 million (2008: £2,253.6 million).

At 31 March 2009 the fixed interest rates vary from 6.325% to 7.168% and floating rates vary from 2.536% (LIBOR + 37bp) to 5.728% (LIBOR + 113bp) and index-linked interest rates vary from 1.399% + RPI to 3.740% + RPI.

At 31 March 2008 the fixed interest rates vary from 6.325% to 7.168% and floating rates vary from 5.587% (LIBOR) to 6.884% (LIBOR + 53bp) and index-linked interest rates vary from 1.399% + RPI to 3.740% + RPI.

11. Loans, other borrowings and financial instruments (continued)

**Fair value of financial assets, liabilities, borrowings and derivatives**

	2009		2008 restated <sup>1</sup>	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current asset investments	-	-	170.0	170.0
Cash at bank and in hand (including short term deposits)	338.6	338.6	191.6	191.6
Short-term borrowings	(515.2)	(395.5)	(376.9)	(273.1)
Long-term borrowings	(4,891.5)	(4,669.8)	(4,448.7)	(4,453.8)
Short-term derivative financial instruments - interest rate swaps	122.7	122.7	(4.8)	(4.8)
Long-term derivative financial instruments - Interest rate swaps and swaptions	331.2	331.2	65.1	65.1
"Net debt"	(4,614.2)	(4,272.8)	(4,403.7)	(4,305.0)
Fixed asset investments	4,952.8	4,952.8	4,765.3	4,765.3
	338.6	680.0	361.6	460.3

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

The estimated fair values of quoted loans and other borrowings are based on period end mid-market quoted prices (where available). The fair value of derivative financial instruments is determined by calculating (with reference to market exchange and interest rates at 31 March) the net realisable value that would have arisen if these contracts terminated at 31 March.

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates, taking into account credit spreads at the year end.

The short-term derivative financial instruments at 31 March 2009 consist of interest rate swaps £122.7m (2008: £(4.8)m). The long-term derivative financial instruments at 31 March 2009 consist of interest rate swaps £331.2m (2008: £65.1m). The fair value of investments has been estimated as not materially different from book value.

**Maturity of financial liabilities**

The maturity profile of the carrying amount of the company's liabilities, at 31 March 2009 was as follows:

	Debt £m	Derivatives £m	Total £m
< 1 year	515.2	(122.7)	392.5
1 – 2 years	-	-	-
2 – 5 years	837.1	(182.4)	654.7
> 5 years	4,054.4	(148.8)	3,905.6
	5,406.7	(453.9)	4,952.8

## Anglian Water Services Financing Plc

### Directors' Report and Accounts 2009 notes to the financial statements (continued)

#### 11. Loans, other borrowings and financial instruments (continued)

The maturity profile of the carrying amount of the company's liabilities, at 31 March 2008 was as follows:

	Debt £m	Derivatives £m	Total £m
< 1 year	376.9	4.8	381.7
1 – 2 years	292.1	(44.3)	247.8
2 – 5 years	98.3	35.9	134.2
> 5 years	4,058.3	(56.7)	4,001.6
	<u>4,825.6</u>	<u>(60.3)</u>	<u>4,765.3</u>

#### **Borrowing facilities**

The group has the following undrawn committed borrowing facilities available at 31 March 2009 in respect of which all conditions precedent had been met at that date:

	2009 £m	2008 £m
Expiring within 1 year	<u>340.0</u>	330.0
Expiring between 1 and 2 years	<u>225.0</u>	-
Expiring between 2 and 5 years	-	225.0
Expiring in more than 5 years	-	-
	<u>565.0</u>	<u>555.0</u>

AWS Limited borrowing facilities comprise a syndicated £225.0m authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; Class A and Class B debt service reserve facilities totalling £264.0m provided by Barclays Bank Plc, HSBC Bank Plc, Royal Bank of Scotland Plc and Lloyds TSB Bank Plc and a £76.0m operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc and Royal Bank of Scotland Plc.

### 11. Loans, other borrowings and financial instruments (continued)

#### Financial risk management

##### Management of financial risk

Financial risks faced by the company include funding, interest rate, contractual, currency risks, liquidity risks and credit risks. The board regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in March 2009 and treasury matters are reported to the board each month.

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

The company aims to meet its funding requirements primarily through public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposits and highly rated money funds, as noted in the analysis of credit risk on page 20.

The company 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 Anglian Water Services group's borrowings are raised by the company and guaranteed by the Anglian Water Services Financing group. 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 company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms. Where there is no formal arrangement for replication of derivatives associated with specific debt items, the company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms, i.e. these are deemed back-to-back. Any exposure to interest rate or RPI risk is passed onto Anglian Water Services Limited, hence, this arrangement eliminates interest rate and RPI risk and results in a net neutral impact on the income statement.

Directors' Report and Accounts 2009  
notes to the financial statements (continued)

11. Loans, other borrowings and financial instruments (continued)

**Sensitivity analysis**

In managing interest rate risk on cash and deposits the company aims to reduce the impact of short-term fluctuations on the company's earnings. Deposits are placed for fixed terms and for the year ended 31 March 2009, the average period on deposit was 56 days (2008: 74 days). Deposits are matched against floating rate debt, and are therefore hedged against interest rate movements. Thereafter, there is an exposure to LIBOR movements for which a 0.25 per cent increase or decrease would result in an increase/decrease in interest receivable of £0.5 million (2008: £0.1 million).

**b) Credit risk**

The company has an intercompany receivable which is not passed due nor impaired.

Placements of cash on deposit expose the company to credit risk against the counterparties concerned. The company has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The company 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.

The table below shows the counterparty by rating type and the balances on deposit

<b>Counterparty</b>	31 March 2009 £m	31 March 2008 £m
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher or in the case of money market funds with a minimum of two ratings of A+/A1/A+ or higher	<u>338.6</u>	<u>361.6</u>

The maximum exposure to credit risk at the reporting date is the carrying value of the deposits above along with the other debtor balances.

**c) Liquidity risk**

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

The table below analyses the company's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<b>At 31 March 2009</b>	Less than 1 year £m	Between 1 and 5 years £m	Between 5 and 25 years £m	Over 25 years £m
Borrowings	(587.1)	(1,993.9)	(5,037.0)	(4,771.9)
Derivative financial instruments	109.7	158.0	(371.5)	(839.0)
<b>At 31 March 2008</b>	Less than 1 year £m	Between 1 and 5 years £m	Between 5 and 25 years £m	Over 25 Years £m
Borrowings	(493.0)	(1,459.9)	(5,111.5)	(4,776.6)
Derivative financial instruments	(1.3)	52.0	(485.8)	(1,023.9)

## Anglian Water Services Financing Plc

### Directors' Report and Accounts 2009 notes to the financial statements (continued)

#### 12. Called up share capital

	2009	2008
	£m	£m
Authorised:		
100,000 Ordinary shares of £1 each	<b>0.1</b>	0.1
Allotted, issued and fully paid:		
Ordinary shares of £1 each	-	-

The issued share capital is 50,000 ordinary shares of £1 each, of which 49,998 have been issued, a quarter paid-up and 2 shares are fully paid-up, giving an issued share capital of £12,502.

#### 13. Movements in shareholder's funds

	Share capital	Profit and loss account	2009 Total	2008 Total
	£m	£m	£m	£m
At beginning of year	-	<b>26.0</b>	<b>26.0</b>	12.8
Profit after taxation	-	<b>16.5</b>	<b>16.5</b>	13.2
Dividends	-	-	-	-
At end of year	-	<b>42.5</b>	<b>42.5</b>	26.0

#### 14. Contingent liabilities

The company, as part of the Anglian Water Services group of companies, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Limited, Anglian Water Holdings Limited and Anglian Water Overseas Holdings Limited, which at 31 March 2009 amounted to £1,671.4 million (2008: £1,674.3 million). These include a £1,609.1 million (2008: £1,609.1 million) loan made by Anglian Water Services Limited to Anglian Water Services Holdings Limited and £62.3 million (2008: £65.2 million) in finance leases and other fixed rate loans owed by Anglian Water Services Limited to third parties.

The company had no other material contingent liabilities at 31 March 2009 or 31 March 2008.

#### 15. Ultimate parent company

The company's immediate parent undertaking is Anglian Water Services Limited, a company registered in England and Wales.

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.

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

Copies of the Anglian Water Services Limited accounts can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.