Anglian Water Group Limited
Annual report and consolidated financial statements

for the year ended 31 March 2012

(Registered under the Companies (Jersey) Law 1991)

Directors' report

for the year ended 31 March 2012

The Directors present their report and the audited financial statements of Anglian Water Group Limited for the year ended 31 March 2012.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply and distribution, wastewater collection and treatment, providing social housing repairs, and property development. The information that fulfils the requirement of the business review, including the company's financial risk management objectives, is set out on pages 5 to 24.

Group results and returns to shareholders

The profit and loss account on page 25 shows the group's results for the year. Dividends of £150.9 million (2011: £217.2 million) have been paid in the year. In addition a first interim dividend of £49.5 million in respect of the year ended 31 March 2013 was approved by the board on 30 May 2012 and was paid on 8 June 2012. This dividend has not been included as a liability at 31 March 2012.

Research and development

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

Directors

The Directors who held office during the year and to the date of this report are set out below:

Sir Adrian Montague CBE	Non-Executive Chairman	
Scott Longhurst	Managing Director, Finance & Non Regulated Business	
Peter Simpson	Managing Director, Anglian Water Services Limited	
Non-Executive Directors:		
André Bourbonnais	CPP	
Andrew Cox	3i	(appointed 29 May 2012)
Daniel Fetter	CPP	(resigned 31 March 2012)
Cressida Hogg	3i	
Andreas Koettering	CPP	(appointed 31 March 2012)
Manoj Mehta	IFM	
Niall Mills	CFS	
Christine O'Reilly	CFS	
Christian Seymour	IFM	
Timothy Stone	CPP	(appointed 1 October 2011)
Philip White	3i	(resigned 29 May 2012)

CPP – Canada Pension Plan Investment Board
CFS – Colonial First State Global Asset Management
IFM – Industry Funds Management

Claire Russell and Ogier Corporate Services (Jersey) Limited continued to serve as Company Secretaries throughout the year.

An annual review of the board's effectiveness is conducted by circulating a confidential questionnaire to each board member. The feedback provided is reviewed by the Chairman and the findings are discussed by the board, and with individual board members as appropriate. Members of the Anglian Water Services board are also invited to participate in the group's board effectiveness review. The Morrison board conducts a similar review.

Directors' indemnities

The company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors.

Shareholders
The investors in the company and their respective group shareholdings as at 31 March 2012 are as follows:

	Number of share held		
	Class A no par value ordinary shares	**Class B no par value ordinary shares**	**No par value preference shares**
Canada Pension Plan Investment Board	4,453,126	656,246	36,138,583,249
Colonial First State Global Asset Management	5,000,000	-	35,364,996,063
Industry Funds Management	3,065,623	-	21,683,149,948
3i	2,325,005	-	16,444,758,534
	14,843,754	656,246	109,631,487,794

Policy on the payment of creditors
It is the group's policy to provide suppliers of goods and services with standard terms and conditions of contract. This document is available from each of the company's principal subsidiaries and, in the case of Anglian Water, 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 group abides by the terms of payment. At 31 March 2012, the group had 43 days purchases outstanding (2011: 33 days). At 31 March 2012, the company had no trade creditors (2011: none).

Charitable donations (community investment)
The group's businesses operate at the heart of the communities we serve, and the majority of our employees live locally too. We believe that offering the time, skills and expertise of Anglian Water employees is the best way in which we can make a sustained community contribution.

In 2011, the group launched a new employee volunteering programme – **Love to Help** – developed as a direct result of employee feedback. Through this programme, employees can volunteer for RiverCare, WaterAid or a good cause of their own choice, and in return we pledge to match up to 30 hours per year of work time to help them to do even more volunteering. This new scheme forms part of Anglian Water Services's Love Every Drop campaign, and aims to build on the great voluntary efforts of our employees.

The group also continue to provide support to WaterAid, our nominated charity. During 2011, the group donated £40,000 to WaterAid, and our WaterAid Volunteers' Committee, with the support of many employee volunteers, partners and suppliers across the business successfully fundraised an extra £372,000, the highest annual amount ever raised by this committee.

Political donations
No political donations were made during the year (2011: £nil).

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, home working, sabbaticals and career breaks.

The company participates in the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial 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.

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: So far as each Director is aware there is no relevant audit information of which the company's auditors are unaware; and they have taken all the steps that they ought to have taken as individual Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Appointment of auditors and Annual General Meeting
Pursuant to Article 87(4) of the Companies (Jersey) Law 1991, Anglian Water Group Limited has dispensed with the obligation to hold an Annual General Meeting and the company has dispensed with the requirement to lay the annual report and accounts before the company in general meeting. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed to the Board.

Going concern
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 the 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.

Statement of Directors' responsibilities

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

The Companies (Jersey) Law 1991 (the 'Jersey Companies 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 ('UK GAAP')). The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. It should be noted that information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Claire Russell
Company Secretary
11 July 2012

Registered Office: Ogier House,
The Esplanade, St Helier, Jersey JE4 9WG
Registered in Jersey No. 94523

Group financial performance
The group's principal business is Anglian Water, the group's regulated water and wastewater company, which serves in excess of six million customers in the east of England and Hartlepool. The group also includes Morrison Facilities Services, a support services business, and AWG Property, a specialist property development company.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water, Morrison Facilities Services and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 23.

The results for the group for the year to 31 March 2012 show a pre-tax loss of £61.2 million (2011: loss of £12.4 million) and turnover of £1,474.2 million (2011: £1,412.0 million). The group has net debt at 31 March 2012 of £6,099.6 million (2011: £5,817.4 million). Net cash inflow from operating activities for the year was £628.6 million (2011: £616.4 million).

Dividends
Dividends of £150.9 million (2011: £217.2 million) have been declared and paid in the year.

Divisional results
The following pages set out a business review for each of the main reporting segments of the group in respect of the year ended 31 March 2012.

Anglian Water

Key performance indicators

Anglian Water's key performance indicators for the year to 31 March 2012 are provided below.

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2011/12 performance in context
Operational				
Drinking water quality [(1)]	Our overall mean zonal compliance performance in the calendar year against the required standards.	A resilient and secure supply of safe drinking water is a top priority.	2011: 99.96% 2010: 99.96% 2009: 99.96% 2008: 99.98% 2007: 99.96% 2006: 99.95%	Our drinking water quality continues to be excellent.
Leakage [(2)]	Cubic metres of water lost per kilometre of main per day.	Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.	2011/12: 5.26 m^3/km/day 2010/11: 6.10 m^3/km/day 2009/10: 5.62 m^3/km/day 2008/09: 5.60 m^3/km/day 2007/08: 5.60 m^3/km/day 2006/07: 5.50 m^3/km/day Industry average 2010/11: 10.5 m^3/km/day.	This year we achieved the best ever performance on leakage to reflect our commitment to securing supply to our customers and protect our environment against the potential drought. Leakage is being maintained at these very low levels while the drought continues.
Service Incentive Mechanism (SIM)	A comparative measure of customer service introduced by Ofwat in 2010/11. It is made up of qualitative customer satisfaction and quantitative customer contact elements.	Excellence in customer service is at the heart of everything we do. The SIM helps us understand how to continually improve our service.	2011/12: 79 2010/11: 61	Our overall score has improved by 18 points from 2010/11. Our qualitative customer satisfaction score improved over the year, with us ranked first amongst water and sewerage companies in the fourth quarter and second for the year as a whole.
Environmental				
Carbon footprint	CO_2 emissions equivalent in tonnes CO_2e.	This key measure helps us: • Manage our environmental impact. • Deliver cost savings.	2011/12: 485,273 2010/11: 504,026 2009/10: 493,702 2008/09: 498,115 2007/08: 478,450 2006/07: 466,280	Our longer term aspiration is a 50% reduction in emissions by 2035 from a 2010 baseline. We have already achieved a 10% reduction in this AMP alone.
Financial				
Capital expenditure £ million	Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation.	Total investment delivered so far in this five-year asset management period.	Two years to March 2012: Determination: 835 [(3)] Actual: 715	Delivering our regulatory outputs but with lower spend than assumed in Final Determination due to: • Higher efficiencies • Reduced demand for new connections.
Operating expenditure £ million [(4)]	Operating costs (excluding depreciation and exceptional operating costs) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives.	Determination: 432.5 Actual: 2011/12: 433.0 2010/11: 396.5 2009/10: 386.1 2008/09: 363.5 2007/08: 331.2 2006/07: 324.7	Up 9.2% on 2010/11, principally due to increases in rates, the new carbon emissions tax and the cost effect of adopting private sewers, as well as relatively high inflation. Despite the additional costs of the Carbon Reduction Commitment and the private sewers transfer we remain broadly on Final Determination.

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2011/12 performance in context
Employees				
Accident frequency rate	Number of accidents per 100,000 hours worked. Data includes both direct employees and key contractors.	Indicates how safely we work.	2011/12: 0.28 2010/11: 0.31 2009/10: 0.37 2008/09: 0.39 2007/08: 0.37 2006/07: 0.39	Our certified health and safety systems are now effective throughout the company. Our BS OHSAS 18001 certificated health and safety management system is embedded throughout the company. We are particularly proud this year to have been commended by the Royal Society for the Prevention of Accidents for 'Excellence in Health and Safety in the Water Industry'.
CHaSPI [5]	The Health and Safety Executive (HSE) corporate performance index. Scored out of 10.	Aims to help assess how well an organisation manages health and safety risks and responsibilities towards its workers, the public and other stakeholders.	2011/12: 8.2 2010/11: 7.8 2009/10: 7.7 2008/09: 7.7 2007/08: 7.4 2006/07: 7.3	This year, we achieved 8.2 out of 10, which compares well with the mean score of 6.9 for other employers.

(1) Drinking water results published in 2012 for the 2011 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. 2011/12 result subject to formal confirmation from Ofwat in autumn 2012.
(3) Final Determination Capex on a gross, Pre-capital Incentive Scheme adjustment basis, in 2011/12 prices.
(4) For the appointed and non-appointed businesses. Final determination adjusted to 2011/12 prices and for non-appointed business and pension deficit payments to ensure consistency.
(5) For more information, see www.hse.gov.uk or www.chaspi.info-exchange.com.

Introduction

Anglian Water is at the heart of every single community in the region, new or well-established, providing clean, safe drinking water and effective, efficient wastewater services. Anglian Water is in it for the long-term and plans for the long-term.

Market operations

Drinking water

We borrow water from the environment, store it and treat it to world-class standards to supply around 1.1 billion litres of drinking water to 4.4 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers.

Wastewater

The company receives approximately 927 million litres of wastewater per day from some 2.6 million homes and businesses, providing services to over six million people every day, 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.

Management

Structure

The Anglian Water Services Board of Directors consists of the Chairman, Sir Adrian Montague; four Executive Directors, Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome, and three independent Non-Executive Directors, Christopher Garnett, Robert Napier and John Watkinson.

Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome also sit on the Anglian Water Services management board, working closely together to develop, review and implement our long-term strategic direction.

People
Anglian Water is one of the largest employers in the region: around 3,800 people work directly for us and another 11,000 work for our contractors and partner organisations. Their expertise, hard work and commitment are at the heart of the service we provide.

Regulators and the regulatory environment
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.

While economic regulation is UK-specific, EU water directives and legislation also cover our operations – particularly drinking water, urban wastewater treatment, water framework, groundwater protection, sewage sludge and health and safety at work.

Ofwat regulates the 21 regional water companies in England and Wales. Ofwat's priorities are to:

- Make sure that all the companies provide customers with a good quality, efficient service at a fair price.
- Monitor the companies' performance and take action to protect consumers' interests.

The water industry operates on five-yearly cycles known as Asset Management Plan (AMP) periods. Ofwat sets prices at the beginning of each period, following submissions from each company about what it will cost to deliver their plans. In November 2009, Ofwat issued their Final Determinations to water and wastewater companies, setting out prices for the period 2010/15. These came into effect on 1 April 2010.

A key part of our strategy is to work with Ofwat and other key regulatory and statutory partners to consider better, more sustainable ways of delivering services.

Ofwat – The Water Services Regulation Authority – monitors the quality of our customer service and the prices we are able to charge our customers.

The **Drinking Water Inspectorate** is responsible for ensuring compliance with the drinking water quality regulations.

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 levels of service with the **Consumer Council for Water**.

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 that 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 million litres (Ml) 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. We have operated inset appointments for many years and supply customers outside our statutory area on five sites. Within our area there are eight sites served by another company.

Water supply licensing allows customers who use over a given volume of water a year to choose their water supplier, who would in turn purchase the water in bulk from us. Wastewater services are not included in this arrangement.

In England, a reduction in the consumption threshold from 50 Ml to 5 Ml per annum for non-household customers wanting to switch supplier under the Water Supply Licensing regime came into force in December 2011. Accordingly, companies published indicative access prices for 5 Ml and 25 Ml in addition to the existing 50

Ml and 500 Ml. Updated company access codes also incorporated use of a common operational code and contract for retail supplies.

Proposals for extending the competition framework are currently being developed. We support the introduction of competition where there are clear benefits to customers, and are playing an active role in the consultation process. The Government's White Paper included various measures to encourage the development of the water retail market and encourage new players into the industry. Accordingly, Ofwat's proposals under its Future Price Limits include a separate price cap for the retail business. The non-contestable market (including all household customers) will be regulated using an average cost to serve, while the contestable market will be regulated using default tariffs and default service levels. Ofwat is also proposing an incentive to encourage water trading.

Ahead of a separate retail price control and in anticipation of greater retail competition in the future, Anglian Water has set up a Business Retail Management Board to steer the development of UK-wide retail activities and creation of Retail/Wholesale trading relationships in a non-separated model.

This year we are proud to be a founding sponsor of the Collaboratory on Sustainable Water Stewardship launched by the University of Cambridge Programme for Sustainability Leadership (CPSL). The main ambition of the research is to provide practical learning for stakeholders about the feasibility of developing a thriving water trading market as a tool for water allocation, using an East Anglia catchment as a case study. The project will use innovative methodologies and work with leading thinkers and people on the ground to develop a shared understanding of trading potential at a local level within environmental limits. This project builds on the two projects we completed in 2010/11, *A Right to Water* and *Trading Theory for Practice*.

Financial performance

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Turnover	**1,138.0**	1,092.3
Operating costs	**(433.0)**	(396.5)
Depreciation [1]	**(254.2)**	(248.5)
Operating profit before exceptional items and goodwill amortisation	**450.8**	447.3
Exceptional operating profit	**41.3**	-
Goodwill amortisation	**(68.7)**	(68.7)
Operating profit	**423.4**	378.6
Finance costs (adjusted) [2]	**(381.2)**	(345.0)
Profit before tax (adjusted) [3]	**42.2**	33.6
Tax charge	**(44.1)**	(28.9)
(Loss)/profit after tax (adjusted) [3]	**(1.9)**	4.7

Turnover for the year was £1,138.0 million, up 4.2% on the previous year. This primarily reflects the regulatory price increase partially offset by customers switching to metered supplies and thereby lowering their bills.

Operating costs for the year increased by £36.5 million (9.2%) to £433.0 million (2011: £396.5 million). The increase is attributable to inflationary pressures across the business (£15.2 million); one off credits (principally land disposals) in the prior year not repeating (£5.0 million); rates increases (£11.0 million); the newly introduced Carbon Reduction Commitment charge (£4.6 million); operating costs of newly commissioned assets (£3.5

(1) Depreciation net of amortisation of grants and contributions.

(2) Finance costs excluding the interest receivable from Anglian Water Services Holdings Limited of £193.6 million (2011: £193.1 million).

(3) The statutory profit before tax is £304.5 million (2011: £295.4 million), and the statutory profit after tax is £260.4 million (2011: £266.5 million) which includes the interest receivable from Anglian Water Services Holdings Ltd referred to above and excludes the allocated goodwill amortisation of £68.7 million (2011: 68.7 million).

million); costs in respect of the transfer of private sewers on 1 October 2011 (£3.3 million); additional leakage reduction and sewer clearance costs (£2.9 million); and one off costs associated with changes to the defined benefit pension scheme and other restructuring measures (£2.4 million). These cost increases were partially offset by targeted efficiency savings of £10.4 million and reduced power costs of £1.0 million.

Despite the continued challenging economic environment, underlying cash collection from our customers has remained generally consistent with the previous year. This reflects our focus on this key area and consequently the bad debt charge of £33.9 million remains broadly in line with the prior year (£33.7 million).

Depreciation is up 2.3% compared with last year, which reflects the ongoing capital investment programme, including the recent commissioning of IT systems and meters which tend to be depreciated over a shorter period.

Operating profit (before exceptional items and goodwill amortisation) has increased by 0.8% to £450.8 million as a result of the increase in turnover, partially offset by the increases in operating costs and depreciation.

Following a comprehensive review process, the group implemented significant changes to the main defined benefit employee pension scheme to ensure its long-term sustainability, and this resulted in a non-cash curtailment gain of £41.3 million in 2012, shown as an exceptional operating profit in the accounts. The curtailment gain reflects the beneficial impact of the changes on the pension scheme liabilities. A substantial proportion of the benefits achieved will be reinvested in the scheme to remove future volatility and risk.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193.6 million; 2011: £193.1 million) increased by 10.5% from £345.0 million in 2011 to £381.2 million in 2012. This increase is predominantly attributable to the non-cash impact of higher Retail Price Index (RPI) on our index-linked debt.

The tax charge has increased by £15.2 million to £44.1 million. This is mainly due to a reduction in long-term UK Gilt rates which increased the discounting charge on deferred tax and a small increase due to higher accounting profits. These were partially offset by a 2% reduction in corporation tax rates, and a prior year adjustment credit.

In the year to 31 March 2012 Anglian Water raised £509.8 million of new funds and made debt repayments of £205.7 million. Debt repayments comprised £2.8 million of finance leases, £64.3 million of open market repurchases in respect of the £275 million Class B 2012/2037 bond, and repayment of £138.6 million of US private placement debt.

At 31 March 2012 Anglian Water had net borrowings of £4,942.5 million, an increase of £356.4 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £5,640.3 million and cash and deposits of £697.8 million. The increased net borrowings reflect an increase of £95.5 million in cash and deposits (which causes net debt to decrease) and an increase of £451.9 million in loans and associated costs to enable repayment of maturing debt over the next 12 months and to meet forecast capital expenditure requirements.

Gross capital expenditure in the appointed business for the year was £407.3 million (£254.5 million on capital maintenance, £152.8 million on capital enhancement). Cumulatively during the first two years of AMP5 we are in line with expected regulatory outputs.

We continue to perform strongly in both identifying and delivering efficiencies on the investment programme, outperforming our expectations in the first two years of AMP5. Delivering this efficiency is key to enabling us to finance the schemes required to deal with the impact of drought caused by two successive dry winters, and the potential consequences of a third dry winter in succession.

We have delivered a 32% reduction in embodied carbon in the schemes we are delivering this year compared to our 2010 baseline. As well as the environmental benefits of reducing the embodied carbon this is also having a very positive impact in helping us deliver financial efficiencies. In the vast majority of cases lower carbon solutions result in whole life lower cost solutions.

Operational performance

Securing and conserving water resources

The 12 months up to the end of March 2012 were the driest in the Anglian Water region for over a century, with rainfall of just 403mm – 68% of the long-term average. Following on from the very dry winter in 2010/11, rivers, reservoirs and aquifers were left severely depleted.

To safeguard and secure customers' supplies we have targeted resources at reducing leakage; invested in increasing security of supply; and launched a number of innovative water efficiency campaigns.

Investment in reducing leakage saw us beat our 2011/12 leakage target set by Ofwat by over 6%, achieving an all-time low level of water lost through leaks, and securing our position as an industry leader. Investment programmes continue to be developed to transfer water to the driest areas in the region, and a number of water-sharing collaborations with other water companies are under discussion. This will help to secure additional resources in 2012 and to increase the security of resources in the longer term.

Throughout the exceptionally dry year, we maintained water supplies to our domestic and industrial customers. Our industry-leading approach to reducing leakage and to driving down demand by increased metering and enhanced water-efficiency campaigns, has enabled us to maintain an effective balance between supply and demand.

Given the need to safeguard resources against the possibility of a third dry winter, along with six other water companies across the south and east, we decided to introduce a temporary domestic hosepipe ban in April 2012 to help further conserve supplies. This was the first time in more than 20 years that we have introduced such a measure.

Recent above average rainfall has helped replenish some supplies, particularly reservoir storage, and the temporary hosepipe ban was lifted in June. However, with groundwater levels still low in some areas across the region, the focus on conservation of supplies remains a top priority.

Focus on customer service

Throughout the year, we have made further progress towards our goal of 100% of our customers very satisfied with our service. Constantly improving results from Ofwat's quarterly Service Incentive Mechanism (SIM) qualitative satisfaction survey confirm this. Our overall score has improved by 18 points from 2010/11. Our qualitative customer satisfaction score improved over the year, with us ranked first amongst water and sewerage companies in the fourth quarter and second for the year as a whole.

We also measure our customer satisfaction levels with internal surveys taking place on a weekly basis. We proactively contacted over 30,000 customers during the year to gather feedback on the service provided, taking appropriate action to improve our response. The 'Voice of the Customer' team, created in 2011, ensures that constantly improving customer service remains a priority.

Several measures reinforce the progress made on improving customer service over the last 12 months. Over 95% of customers calling our contact centre rate their satisfaction with our service as 'satisfied' or better (up from 87% in 2010/11), while 83% of those interviewed declare themselves 'very satisfied' (up from 66% in 2010/11). The Consumer Council for Water has also investigated over two-thirds fewer complaints against us this year, down to just six from 22 in 2010/11, and 66 in 2009/10.

Our service to commercial customers was improved further based upon customer feedback, in anticipation of the Water White Paper (published December 2011). This has left Anglian Water Business in a strong position to take advantage of the imminent introduction of business retail competition at a national level.

Improving our efficiency and flexibility

In addition to the £15 million of benefits our 'Shaping the Future' initiative delivered last year, our focus on finding more efficient ways of working delivered around £10 million of incremental operating cost savings during the year. This helped to offset the significant upward pressure on our cost base during the year, from general inflationary pressures (in a year when average cost inflation was just under 5%), and other cost factors such as rates, the Carbon Reduction Commitment, and our new obligations on the transfer of private sewers.

This year our rigorous capital planning processes continue to place great emphasis on designing systems that reduce the embodied carbon (and associated costs) of our operations throughout project lifecycles.

As at April 2012 we had achieved a 32% reduction in embodied carbon, delivered through intelligent design and measured against our 2010 baseline. Projects that have contributed to this saving include the expansion of treatment capacity at Bedford Wastewater Treatment Works. A rethink of the way the treatment works was to be redeveloped saved carbon, cut cost, and reduced the requirement for a 'new-build' solution. When compared to a conventional solution, the project has achieved a 34% reduction in capital cost, a 65% reduction in embodied carbon and a significant reduction in the site operating costs.

Meeting the challenge of climate change

Climate change remains one of the biggest challenges facing our business. Projections suggest hotter, drier summers, and wetter winters, which may have an adverse impact on security of supply in the long term. At the same time, the anticipated growth of population and development in our region is likely to significantly increase demand. We are meeting these challenges with a strategic response driven by adaptation and mitigation.

In 2011/12, energy represented 11% of our operating costs. We have a significant and continuous programme to reduce our energy consumption on all our sites, maintaining a strong focus on the energy efficiency of new investments, while increasing the energy efficiency of existing operational plants. We remain committed to reducing our operational carbon emissions by 10% in real terms by 2015, from a 2010 baseline. This year, we met our energy efficiency targets, delivering savings of over 9 GWh.

We now generate over 5% of our own electricity needs through renewable power plants based on our own sites. This year, we generated 45.9 GWh of renewable energy (2010/11: 39.1 GWh). This is enough to power around 11,500 homes for an entire year. We are on track to meet our target of generating 87 GWh annually by 2015.

Planning and investing for growth

Although regional growth has temporarily slowed, in the short-term the impacts of a growing population remain a key area of focus for the business. In 2011/12 work began on several projects which support regional growth, including an £18 million scheme on the South Humber Bank to bolster supplies to a number of operations for whom a resilient water supply is business-critical; a £40 million pipeline project to transfer 26 million litres of water per day from our reservoir at Covenham to the growing town of Boston began, attracting significant media interest; and planning permission was secured for a new £44 million water treatment works in Newton-on-Trent to support water supplies to Lincoln, a recognised Growth Point in our region.

Partnerships remain at the core of our strategy for supporting growth. Working alongside the University of Cambridge Programme for Sustainability Leadership, we continue to contribute to their Climate Change Leaders Group and to a project involving a wide range of stakeholders on the future of water stewardship and eco-system management in local communities.

We continue to enjoy Business in the Community's 'Platinum' status, which places us in the top ten of the UK's most sustainable companies and as such we contribute to the UK Water Research and Innovation Framework and are active participants in the Guardian's Sustainable Business Network.

We also published a variety of communications to help shape both our industry and the behaviour of our customers, including our Small Steps Big Impacts report into the link between energy and water, published in June 2011.

Maintaining drinking water quality

The quality of the drinking water we supply, as measured by the third of a million tests we undertake each year, is reported in calendar years. Our record on drinking water quality standards remained excellent in 2011, with an overall compliance score of 99.96% (2010: 99.96%).

As part of our five year, £123 million programme of investment in drinking water quality, we are investing in proactive catchment management as well as increasing the capabilities at our water treatment works. During 2011 we completed a new blending scheme at our Tuddenham water treatment works in Ipswich to reduce the level of naturally occurring selenium present in the groundwater. We have also completed the installation of 22 new phosphate dosing processes across our region, to reduce the amount of lead that is dissolved in water when it passes through lead pipes within older properties.

Targeting improved wastewater asset performance

Exceptionally cold weather followed by a record dry spring put significant pressure on the operation of our wastewater assets in 2011/12. Our resources were stretched by the combination of a heavy biological 'slough'[4] and some availability issues at our sludge treatment centres. Despite these challenging issues, performance at our waste water treatment works remained within Serviceability targets.

We continue to target improvements against the Waste Water Infrastructure Serviceability measure, where performance is currently assessed to be 'marginal'. In 2011/12 we invested £35 million in this area, above that planned within the final determination. We are working to deliver our Wastewater Infrastructure Serviceability Action Plan, encompassing a number of projects designed to give early warning of sewer blockages. This will all help build on recent improved performance, with the objective of returning this measure to 'stable' in the near term.

Our Bathing Waters achieved 100% compliance with the European Bathing Water Directive for a record 11th consecutive year. Over 85% of them also achieved the higher Guideline standard, with 17 beaches able to fly the coveted Blue Flag.

On 1 October 2011, the ownership of private sewers and laterals was transferred by the Government from customers to wastewater companies. This added approximately 31,200 km of pipes to our sewerage network, increasing it by roughly 70%. Our wastewater operational structure was changed to adapt, and after the successful transition we continued to improve the service delivered to our customers.

Our industry-leading 'Keep it Clear' campaign, launched in October 2011, continues to play a key role in helping to achieve our business goal of 'no pollutions', by minimising the number of sewer blockages that we are called to deal with. Launched in Peterborough, the campaign has now been extended to other major towns across the region and targets domestic customers, restaurants and take-away food outlets in pollution 'hot spots' with innovative campaign techniques to inspire behavioural change on the inappropriate disposal of fats, oils and greases and unflushable items. On average blockages in the 'hot spot' areas have reduced by some 40% as we continue to work to reduce the approximate £12 million annual spend on planned and reactive clearing of pipes in our wastewater network.

Consulting on pension benefits

During the year, we had to make some changes to our defined benefit (final salary) scheme to keep it healthy and sustainable, and protect our customers from the rising costs and risks of our pension arrangements.

Just under half our staff were affected. We undertook a major communications programme to explain the proposed changes. More than 96% of affected members attended face-to-face briefing events across the region. The company provided detailed material including personalised illustrations of what the changes could mean for each member, and set up a dedicated telephone helpline and website to help staff with questions and further information.

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[4] A biological 'slough' occurs when significant variations in temperature kill large numbers of bacteria at a sewage treatment works, limiting the site's ability to treat waste water.

After detailed consultation, we reached agreement with our recognised trade unions, and separately with the Trustees, on changes which took effect from 1 April 2012. These changes affect the way pensions build up in the future, and still provide a better quality pension arrangement than that offered by many other employers.

Occupational health and safety
It's our strong belief that all work-related accidents are preventable. Whatever the job, however urgent the deadline, our employees and contractors must never compromise on health and safety.

During the year, we continued our 'Make it Safe, Make it Home' campaign to focus everyone on our health and safety charter, which states:

- nothing is so important that we cannot take the time to do it safely;
- we will never knowingly walk past an unsafe act or condition; and
- we are committed to the principle that all accidents and harm are preventable.

The campaign encourages everyone to take responsibility for behaving safely, taking immediate corrective action when they spot something that could be a hazard, and challenging unsafe actions by colleagues or contractors.

During the year, we created 86 health and safety coaches to encourage safe working across our operations. They were selected because they have the necessary credibility, respect and experience to be effective in this vital task.

Principal risks and uncertainties
Effective risk management is central to the achievement of our strategic priorities. It's a key enabling theme, running across our business through a number of formal and informal processes.

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

We track risks using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks; to document the existing controls in place to manage these risks; to ensure mitigation plans are established and monitored; and to establish clear ownership of each of the risks.

The Top Tier risk register is reviewed on a regular basis by the AWS management board, the Group Risk and Compliance Monitoring Committee, and the AWS and group boards.

Financing our business
Description
We need to fund a £2.3 billion capital programme in AMP5 and have gross debt of £5.6 billion to manage and service. It's critical that we have robust financing arrangements in place.

Mitigation
We are funded predominantly by debt in the form of long-term bonds and other debt instruments, rather than equity (shares). Net debt accounts for approximately 79% of our regulatory capital value as at March 2012.

The debt-funding structure was established in 2002 and has resulted in our capital costs being consistently lower than the industry average, resulting in lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments together with available bank facilities and having a diverse debt portfolio in terms of source and maturity.

Flooding of Key Sites
Description
One of the key potential effects of climate change is the impact on the weather in our region. We expect more intense, extreme storms and wetter winters. This makes our low-lying region particularly vulnerable to localised flooding that may impact our wastewater network, increase the likelihood of flooding to customers' homes and potentially disable treatment works.

Mitigation
We invested £40 million in AMP4 schemes to improve the resilience of our network, and we are investing a further £40 million in AMP5 for flood prevention and resilience. Comprehensive business continuity plans are in place, and are certified to BS25999, including detailed Flood and Emergency Response plans for our key sites. Our business continuity plans are regularly tested internally, and also in multi-agency exercises, to ensure the plans are robust and effective.

Regional Growth
Description
Managing the forecast rise in population in our region remains one of our most significant long-term challenges. Although regional growth has temporarily slowed, in the short-term the impacts of a growing population remain a key area of focus for business. We expect that planned developments will restart once economic conditions in the UK improve.

Mitigation
We invest considerable effort in forecasting our supply and demand requirements at a local and regional level for the next 25 years. We continually assess our investment options to identify the right combination of investment in new water resources, enhancements to our networks, and water efficiency measures to meet this challenge most cost effectively for our customers. We are also championing 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.

Energy Management
Description
We are one of the largest users of electricity in the east of England, due to the power needed to treat water and wastewater, and pump it around such a geographically flat region. Energy represents 11% of our total operating costs. Wholesale energy prices have fallen from the very high levels seen in the summer of 2008, but continue to be very volatile, reflecting uncertain global economics and political conditions.

Mitigation
We use a comprehensive hedging programme to manage our exposure to wholesale energy prices, and over the last three years we have progressively secured 100% of our wholesale electricity costs for the next three years. We also have a significant and continuous programme to reduce our energy consumption on our sites, with a focus on the energy efficiency of new investments, and on more energy efficient ways to operate our current plants. We now generate about 46 GWh of our own electricity needs through renewable power plants based on our own sites, with ambitious plans in place to increase this to 87 GWh by the end of AMP5.

Climate Change
Description
Climate change is a major challenge to our business, and potential impacts include long-term changes to our region's water resource availability due to drought, flooding within our sewer network and flooding of our treatment sites. We operate in the driest region of the UK, classed as 'water-stressed' by the Environment Agency, and England has been in drought for much of the last year, with our region most severely affected. With this in mind it is vital that we manage supply and demand carefully, both today and for the future.

Mitigation
The recent drought situation has presented us with a number of challenges, with the lack of groundwater recharge and low river flows reducing our ability to fill reservoirs. In response, we have been working to improve the flexibility of our supply networks and therefore mitigate the effects of the drought as much as

possible. Climate change projections suggest that, despite having drier summers in the future, we will also have wetter winters, and this will enable us to capture and store water during the winter months and maintain a steady supply all year round. In addition, we continue to contribute to adaptation plans for our industry, and our long-term investment plans reflect the predicted impacts of climate change in our region. Meeting our ambitious goals of reducing carbon emissions across the business is also a key priority.

Bad Debt

Description

We continue to experience significant numbers of customers who are unable to pay their bills, or who choose not to pay them. This puts a considerable cost burden on those who do pay their water charges, of around £15 per year. We currently provide around 3% of our revenue against non-payment of bills.

Mitigation

Our payment arrangements are as flexible as possible for those vulnerable customers who want to pay their bill but struggle to do so. We encourage customers who find themselves in difficulty to contact us as early as possible through our dedicated freephone helpline. We offer low user and vulnerable tariffs for metered customers, and the Anglian Water Assistance Fund provides further help and support to those experiencing particular and genuine hardship.

We place a strong focus on the collection of customer debts and use all available recovery procedures to minimise the levels of bad debts, including legal redress. We have implemented a sophisticated debt management system and are working with leading debt collection specialists to exploit new advances in this area, including the appropriate sharing and use of credit reference data.

Water Sector Reform

Description

The future shape of the water sector has been the focus of considerable public policy debate over the last two years. In particular, with a number of reviews by leading experts and government bodies into the key areas of Customer Tariffs, Economic Regulation and Competition. The publication of the Water White Paper and Ofwat's Future Price Limits confirms we will see significant changes to the industry.

Mitigation

We have been fully engaged in all aspects of these debates, including the publication of a number of pieces of evidence-based research in the key areas of water resource, and in particular on water trading in our region. We have taken an active role in key industry working groups, including the Market Reform Finance Forum, which looked at the impacts of potential reforms on the financing of the industry, and we are a pilot company in Ofwat's accounting separation project.

Compliance with legislation

Description

We carefully manage compliance with current legislation and monitor forthcoming legislation such that we are in a position to respond to new legislative requirements.

Mitigation

Many of our key operational processes have been certified to meet the requirements of applicable quality standards (including ISO9001). Most of these standards require that our processes and systems are designed to comply with the relevant legislation. In addition, our legal department works closely with the business to ensure compliance with legislation generally, and the Legal Director sits on the Risk and Compliance Monitoring Committee, which meets on a quarterly basis. In the course of the year, we commissioned internal audits of our programmes for complying with the requirements of the Bribery Act and the Competition Act. These audits confirmed the robustness of these compliance programmes.

Private Sewers

Description

Private sewers in our region transferred to our ownership on 1 October 2011, with privately owned pumping stations also transferring to us in coming years. We estimate that this has increased the length of our sewer network by 70% and that we will adopt around 3,000 pumping stations. We expect that the condition of these assets will be very variable and will require significant investment over time to ensure they meet the standards required.

Mitigation

We created additional capacity and flexibility within our operational teams in advance of the transfer to mitigate the impacts of the increase and variation in workload. We established a dedicated project team to manage the transition; this remains in place to deal with any outstanding issues and to prepare for the adoption of private pumping stations. We are currently carrying out initial surveys and investment modelling to assist the preparation of our adoption strategy.

Efficiency delivery

Description

The delivery of efficiencies in our operations is vital to our success – keeping our costs under control helps to minimise our customers' bills and is an important measure of our performance within the regulatory structure.

We have delivered significant cost efficiencies across our capital and operating cost base in the first two years of AMP5, and will continue to drive out costs throughout AMP5 and beyond.

Mitigation

Examples of efficiency projects we have implemented during the first two years of AMP5 include the following: changing working practices in our front-line workforce; setting up a major efficiency programme across our back-office teams; introducing changes to pension arrangements; pursuing energy efficiency; carrying out rigorous root cause analysis to ensure we provide the right whole-life cost solutions; focusing on both cost and carbon to find innovative ways of providing sustainable solutions; developing a range of initiatives to ensure that we maximise our use of standard products to reduce both cost and time on site, and improve the operability of what we deliver.

Outlook

Our focus remains on delivering excellent operational performance and high levels of customer satisfaction as we continue to deliver targeted and sustainable efficiencies across our operations and capital investment programme.

Our Love Every Drop campaign will continue to encompass our strategic objectives and business goals and will demonstrate our unique approach to the particular challenges of growth and climate change in the east of England.

We will remain fully engaged with the important public policy debate associated with the market reform agenda, and we welcome the new 'outcomes based' approach to regulation, as this will better connect customers and stakeholders to the water industry and make us even more responsive to customer needs and expectations. Our Love Every Drop initiative is already engaging customers and communities on a wide range of issues, including the delivery of our ambitious business goals, and is therefore perfectly suited to this new regulatory approach.

MORRISON

Morrison Facilities Services (Morrison)

Principal activities
Morrison is one of the leading providers of social housing repairs in the United Kingdom. We principally deliver outsourced property repair and maintenance and capital investment services to housing associations and local authorities.

Morrison currently has over 40 major clients. We manage more than 500,000 homes and other local authority buildings and provide facilities services to over 500 schools. We provide repair and maintenance services along with related activities such as call centre management and tenant liaison. Morrison also manages local authority and housing association capital spending programmes such as kitchen and bathroom replacement.

Our vision is to transform the quality of homes and communities for our customers. That means we do things differently and better by:
- Creating sustainable jobs and apprenticeships.
- Engaging in our communities.
- Being accountable for our performance and always trying to improve.

The Social Housing market in which we operate
Morrison operates in the outsourced social housing repairs and maintenance sector, and its clients are Local Authorities, Arms Length Management Organisations, and Registered Social Landlords/Housing Associations. Although the market currently has to work within government spending constraints we believe sector fundamentals remain strong with unsatisfied demand for social housing, sound maintenance standards, and stable long-term clients.

Suppliers of maintenance services to the sector are many and fragmented, but Morrison has enviable experience in the sector, a strong quality reputation, and is one of the sector's largest providers. We firmly believe that good opportunities remain for the best providers so our strategy is to continue to focus on delivering the best social housing repairs service for our clients.

The market is changing and has a number of key drivers. Tenant and client quality expectations have climbed as quality of housing and community is a key determinant of life chances for tenants. Competition and budgetary constraints have driven falling repair prices over recent years though prices now appear to be stabilising somewhat. There has been supply consolidation as some competitors, notably those focused on less dependable capital work, have merged or exited the sector. And finally, with downward price pressure on low-margin outsourced work the requirement to right-size resource as work volume and mix changes is more important than ever. Taken together, these changes mean our sector remains strong but Morrison must deliver quality service to tenants and clients, but at a cost that benefits from Morrison's experience and scale.

Delivering quality service means we must do many things well, including tenant and client service satisfaction, safe working, being a responsible business with integrity, and ensuring we also work to benefit local communities and employees.

Delivering at a price that ensures client saving whilst also preserving a healthy business means investing in best practice processes and IT, operating with suitable skilled resource, and securing scale benefits from cost sharing and purchasing economies.

MORRISON

Measuring our delivery

Key Performance Indicators

	Year ended 31 March 2012	Year ended 31 March 2011
Accident frequency rate [1]	**0.17**	0.16
Operating profit margin	**(2.2)%**	5.2%
Trade debtor days [2]	**51**	41
Order book at 31 March [3]	**£1,297m**	£1,428m

[1] Number of accidents per 100,000 hours worked, calculated on an annual basis
[2] Includes amounts recoverable on contracts
[3] Excluding contract extensions

In common with our public sector clients, Morrison has had to react to new economic conditions in 2011/12.

The financial year saw a period of unprecedented change affecting the sector (record reductions in local government spending), the work-type (accelerated wind-down of Decent Homes spending), and the company (mobilised or re-mobilised one-third of our revenues at lower prices).

	Year ended 31 March 2012			Year ended 31 March 2011
	H1	H2	Full year	Full year
	£m	£m	£m	£m
Turnover	139.1	151.6	**290.7**	274.1
Operating (loss)/profit before exceptional items and goodwill amortisation	(12.7)	6.3	**(6.4)**	14.2
Exceptional items	-	(6.9)	**(6.9)**	2.9
Goodwill amortisation	(1.7)	(1.7)	**(3.4)**	(3.4)
Goodwill impairment	-	(24.8)	**(24.8)**	-
Operating (loss)/profit	(14.4)	(27.1)	**(41.5)**	13.7

After a long run of steady trading these combined forces impaired financial performance in the first half of 2011/12. Morrison reacted quickly by restructuring the organisation with most of this restructuring completed during the second and third quarters. By the fourth quarter the company had returned to profitability and ended the year with no debt, unused bank facilities, and the correct resource mix to service its clients soundly and profitably going forward.

Financial performance in the income statement

Turnover climbed £16.6m (6.1%) year-on-year to £290.7 million despite a £20.3 million fall in Decent Homes revenue as that national programme reached its final stages. Turnover also fell at two of our largest contracts North Lanarkshire Council and Lambeth. Morrison had worked successfully with both clients for many years and successfully retained both contracts at re-bid but at the lower prices now prevailing in the market. However, these turnover reductions were more than offset by revenue wins at Leeds and Rotherham, two large new contracts that both started well. The contracts traded profitably for their first year demonstrating the care that Morrison takes over pricing and resourcing despite intense competition in the sector.

The 2011/12 year began with hesitant trading as our clients adjusted to new budgets following the government austerity measures. Higher margin capital and planned works fell in the first quarter which also saw higher levels of small-scale, low margin reactive repair jobs. Some of this change in work mix related to the wind-down of the national 'Decent Homes' programme, with lower volumes especially notable in Gateshead and Manchester. Additionally, some contracts were proving fundamentally unprofitable at the new lower volumes. Finally during this early period, Morrison was incurring mobilisation costs of new contracts at Leeds, Salix, Ealing, and Catalyst. Morrison does not capitalise such mobilisation costs which were fully expensed in the period as they were incurred. All of these combined to adversely affect margins.

In response, the company undertook a restructuring programme to ensure that costs and resources were aligned to the lower margin trading conditions.

The majority of the restructure was completed during the second and third quarters, and by the fourth quarter the business had returned to profit. At the end of the year we also confirmed that we would exit two further contracts where it had not proved possible, under the contract framework, to restructure resources in line with a profitable work volume and mix.

As a result of the restructuring undertaken, exceptional restructuring costs of £8.9 million covering terminal losses on exited contracts and the costs of headcount restructuring, partly offset by the release of a £2 million warranty provision that lapsed at the year end, were recognised in the year. Additionally, an impairment review of the carrying value of goodwill related to Morrison has been undertaken and has resulted in an impairment of £24.8 million in the year.

Although the early part of the year was challenging financially, the company emerges with a better balanced contract and resource portfolio for the new trading conditions.

No dividends were paid to the shareholder during the year.

Financial position at the balance sheet date
The company has focused on reducing the working capital, and had a positive closing cash at bank balance of £14.1 million.

The Group's operation requires only a limited fixed asset base, although we continue to invest in future growth through the acquisition and development of new solutions and systems.

The Group remains in a strong asset position at the balance sheet date and has undrawn bank facilities available if required.

The board and management team
Morrison has its own board of six Directors. The board of Morrison Plc includes the Chairman and Managing Director, Finance & Non Regulated Business of AWG acting as non-executive Directors, together with two other independent non-executives.

The Morrison Chief Executive is responsible for the overall performance of the company. Each regional operating division is run by its own management and administrative team, and is supported by a small number of head office employees comprising the finance, human resources and legal functions.

Operation of the board
The Board meets at least ten times per year to review the company's strategy and its performance using a balanced score card. There is a regular Board cycle of additional topics (such as a safety review, competitor review, and a longer Strategy Review day) and other executives from around the business are regularly invited to attend where appropriate.

Principal risks and uncertainties
Government spending
Morrison works for local authorities and housing associations and so is exposed to local government spending budgets which are under great pressure. The majority of the work we do is 'responsive repairs' which are urgent repairs that the client needs to ensure that their home is of a sound standard. Some clients are outsourcing their repairs work for the first time to help them to manage their repairs cost resulting in a stable order book. However, in light of the focus on reducing public spending, Morrison is focused on tight cost control whilst still delivering a high quality service to our clients.

Pensions
The Company contributes to both defined contribution and defined benefit schemes. The financial statements include contributions to all schemes, shown in the profit and loss account, and an actuarial adjustment relating to the surplus or deficit associated with defined benefit schemes under FRS 17. Where possible, Morrison's liability for ongoing defined benefit scheme deficits is contractually limited by a cap and collar arrangements.

Mobilisation risks
Morrison recognises the risk that a poorly mobilised contract can lead to poor customer, people, or performance outcomes. We therefore assign a mobilisation team made up of specialists from around the business and the local region to each new contract. This team runs mobilisations to an agreed timetable and schedule, regularly reporting progress to senior management. We have also implemented a 'mobilisation hub' on our intranet that captures best practice and guides managers through new mobilisations to ensure standardisation across the business.

Contractual risk
The majority of Morrison's contracts are with public authorities. Both the funding of programmes and the political support for private involvement may be subject to change.

Local Government procurement is driven by the requirement to achieve best value for the tax payer. This puts pressure on margins within the business and influences the level of risk transfer to the contractor. It also means that in a competitive environment there is a risk that contracts are only held for one contractual period as the process is primarily price driven.

Morrison spreads its contractual risk by maintaining a varied client portfolio and increasing the proportion of its work held within framework contracts. When assessing potential contracts, we consider whether they fit with Morrison's core skills and our established supply chain.

Health & Safety
Morrison is committed to providing a safe working environment and holds national certification to BS OHSAS 18001 Occupational Health and Safety under the monitoring of the British Safety Council. This internationally-recognised specification promotes a safe and healthy working environment through a framework that allows an organisation to consistently identify and control its health and safety risks, reduce the potential for accidents, aid legislative compliance and improve overall performance.

Systems dependence and reliability
The Company uses IT and management processes to coordinate a large volume of work, appointments and tradespersons. A significant IT or other system failure would be disruptive to Morrison's business continuity.

The Company mitigates this risk through IT resilience and disaster recovery plans designed to restore service and a business continuity plan for each operational site.

AWG Property
COMMERCIAL I RESIDENTIAL I DEVELOPMENT I INVESTMENT

Property

Financial performance and Key Performance Indicators

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating loss	**(6.0)**	(10.5)
Operating cash flow	**(11.6)**	(7.8)
Capital employed at 31 March	**15.1**	11.6

Introduction
During 2011/12, the group has continued to pursue the value realisation of its property investments. Notwithstanding the extremely difficult property market present throughout 2011/12 and which is expected to continue during 2012/13, this process has allowed the realisation of £1.8 million of value from certain strategic land assets and a reduction in joint venture off balance sheet debt by c.20% to a level of £93.4 million at year end. Certain key joint ventures have also secured further refinancing through to the end of 2014, which should provide a platform for future recovery of the relevant additional AWG Property Limited investment.

A small but focused management team remains in place to manage the residual property assets and to seek their disposal for the best value at the appropriate time.

Financial performance
AWG Property's turnover was £21.0 million (2011: £16.6 million) and the operating loss for the year was £6.0 million (2011: £10.5 million) as a result of the strategy to realise the assets of the business.

Management
AWG Property has its own board, which consists of one Anglian Water Group Limited Director (the Managing Director, Finance and Non Regulated Business), the Managing Director of AWG Property and two further Executive Directors. The Managing Director of AWG Property oversees the day-to-day operations.

Risks
AWG Property faces a variety of business risks. The principal risk is the economic cycle, which property developments tend to follow. The current economic environment presents risks in relation to the financial stability of joint venture partners and maturity of debt funding on individual properties. The AWG Property strategy mitigates these by; ensuring that the assets are able to generate sufficient income to service the interest costs; and having an asset management strategy to add value to which the funding counterparties are also committed. The combination of these is intended to mitigate the requirement to realise value from such assets in an adverse property market.

Pensions
The majority of employees participate in the group defined contribution scheme.

Outlook
AWG Property will focus on the controlled realisation of value from its remaining property portfolio.

Other business activities

The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland, Alpheus Environmental which operates industrial and commercial wastewater treatment works, and residual international interests.

Pensions

At 31 March 2012 the gross deficit for the group (before deferred tax) was £56.1 million (2011: £83.7 million). Following a comprehensive review process during the year, the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme. These changes resulted in a curtailment credit of £43.5 million, shown as an exceptional operating profit in the financial statements. This has been offset by a decrease in the discount rates applied to future liabilities. In addition, asset performance was above expectations. Future additional contributions will continue to be made in line with actuarial advice.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central treasury team reporting to the Managing Director, Finance & Non Regulated Business. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The central treasury function actively:

- ensures that lenders covenants are met;
- secures funds through a balanced approach to financial markets and maturities;
- manages interest rates to minimise financial exposures and minimise interest costs;
- invests temporary surplus cash to best advantage at minimal financial risk;
- maintains an excellent reputation with providers of finance and rating agencies;
- promotes management techniques and systems;
- enhances control of financial resources; and
- monitors counter party credit exposures.

The group's board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 19 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2012 the group held cash, deposits and current asset investments of £823.3 million (2011: £697.4 million) and had undrawn committed multi-currency facilities of £805 million (2011: £763 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 19 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2012 Anglian Water's and Osprey Acquisitions' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.2% (2011: 78.5%) and 84.9% (2011: 85.4%) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2012, all group companies were compliant with all covenants.

Interest rates

The group's policy, as agreed by the board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

Group profit and loss account

for the year ended 31 March 2012

Notes		2012 £m	2011 £m
2	**Turnover**		
	Turnover (including share of joint ventures)	**1,484.8**	1,418.3
	Less: share of turnover of joint ventures	**(10.6)**	(6.3)
	Group turnover	**1,474.2**	1,412.0
	Operating costs:		
	Operating costs before exceptional operating profits/(costs), goodwill amortisation and impairment	**(1,052.1)**	(979.2)
4	Exceptional operating profits/(costs)	**36.6**	11.9
	Goodwill amortisation	**(72.1)**	(72.1)
4	Goodwill impairment	**(24.8)**	-
3	**Group operating costs**	**(1,112.4)**	(1,039.4)
	Group operating profit	**361.8**	372.6
	Share of operating profit in joint ventures		
	– Before exceptional operating profit	**1.3**	1.7
4	– Exceptional operating profit	**-**	3.7
	Total operating profit		
	– Before exceptional operating profits/(costs), goodwill amortisation and impairment	**423.4**	434.5
	– Exceptional operating profits/(costs) and goodwill impairment	**11.8**	15.6
	– Goodwill amortisation	**(72.1)**	(72.1)
2	**Total operating profit**	**363.1**	378.0
5	Net interest payable and similar charges	**(422.4)**	(381.2)
6	Other finance costs (net)	**(1.9)**	(9.2)
7	**Loss on ordinary activities before taxation**	**(61.2)**	(12.4)
8	Tax on loss on ordinary activities	**(32.6)**	(19.2)
	Loss on ordinary activities after taxation	**(93.8)**	(31.6)
	Equity minority interest	**(2.1)**	(3.0)
	Loss for the financial year	**(95.9)**	(34.6)

The results above all arise from continuing operations.

Notes 1 to 30 are an integral part of these financial statements.

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

Anglian Water Group Limited

Group statement of total recognised gains and losses

for the year ended 31 March 2012

Notes		2012 £m	2011 £m
	Loss for the financial year		
	Group	**(95.7)**	(37.2)
	Joint ventures	**(0.2)**	2.6
		(95.9)	(34.6)
22(c)	Actuarial (loss)/gain recognised on the pension schemes	**(50.3)**	90.3
	Current tax relating to the actuarial loss on the pension schemes	**8.8**	-
	Deferred tax relating to the actuarial loss/(gain) on the pension schemes	**4.3**	(25.3)
	Impact of change in tax rate on deferred tax on pension schemes	**0.7**	(1.2)
	Currency translation differences on foreign currency net investments	**(0.2)**	-
	Total recognised gains and losses relating to the year	**(132.6)**	29.2
	Total recognised gains and losses relating to the year		
	– Group	**(132.4)**	26.6
	– Joint ventures	**(0.2)**	2.6

Group statement of movement in shareholders' funds

for the year ended 31 March 2012

Notes		2012 £m	2011 £m
	Total recognised gains and losses relating to the year	**(132.6)**	29.2
11	Dividends	**(150.9)**	(217.2)
	Movement in shareholders' funds	**(283.5)**	(188.0)
	Shareholders' funds at the beginning of the year	**577.1**	765.1
	Shareholders' funds at 31 March	**293.6**	577.1

Anglian Water Group Limited

Group and company balance sheets

at 31 March 2012

Notes		Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
	Fixed assets				
12	Intangible assets	**1,031.6**	1,128.5	**-**	-
13	Tangible assets	**5,737.9**	5,615.6	**-**	-
14	Investments				
	Joint ventures				
	– Share of gross assets	**53.6**	65.5	**-**	-
	– Share of gross liabilities	**(53.6)**	(65.5)	**-**	-
		-	-	**-**	-
	Other investments	**-**	-	**1,211.2**	1,211.2
	Total investments	**-**	-	**1,211.2**	1,211.2
		6,769.5	6,744.1	**1,211.2**	1,211.2
	Current assets				
15	Stocks	**26.2**	29.5	**-**	-
16	Debtors	**448.3**	397.2	**-**	-
	Investments	**134.1**	49.0	**-**	-
	Cash at bank and in hand (including short-term deposits)	**689.2**	648.4	**-**	0.2
		1,297.8	1,124.1	**-**	0.2
	Creditors: amounts falling due within one year				
17	Short-term borrowings	**(234.4)**	(154.6)	**-**	-
17	Other creditors	**(549.2)**	(468.5)	**-**	-
		(783.6)	(623.1)	**-**	-
	Net current assets	**514.2**	501.0	**-**	0.2
	Total assets less current liabilities	**7,283.7**	7,245.1	**1,211.2**	1,211.4
	Creditors: amounts falling due after more than one year				
18	Loans and other borrowings	**(6,688.5)**	(6,360.2)	**-**	-
18	Other creditors	**(132.5)**	(134.0)	**-**	-
		(6,821.0)	(6,494.2)	**-**	-
20	**Provisions for liabilities**	**(121.8)**	(107.0)	**-**	-
	Net assets excluding pension assets and liabilities	**340.9**	643.9	**1,211.2**	1,211.4
22(d)	Pension schemes with net assets	**4.4**	5.8	**-**	-
22(d)	Pension schemes with net liabilities	**(47.0)**	(67.7)	**-**	-
	Net assets including pension assets and liabilities	**298.3**	582.0	**1,211.2**	1,211.4
	Capital and reserves				
23	Called up share capital	**-**	-	**-**	-
24	Share premium account	**1,096.2**	1,096.2	**1,096.2**	1,096.2
24	Profit and loss reserve	**(802.6)**	(519.1)	**115.0**	115.2
	Total shareholders' funds	**293.6**	577.1	**1,211.2**	1,211.4
	Minority interest	**4.7**	4.9	**-**	-
	Capital employed	**298.3**	582.0	**1,211.2**	1,211.4

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the board of Directors on 11 July 2012 and signed on its behalf by:

Sir Adrian Montague CBE
Chairman

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Anglian Water Group Limited

Group cash flow statement

for the year ended 31 March 2012

Notes		2012 £m	2011 £m
(a)	**Net cash inflow from operating activities**	**628.6**	616.4
	Dividends received from joint ventures	**0.2**	-
	Returns on investments and servicing of finance		
	Interest received	**6.1**	6.3
	Interest paid	**(310.9)**	(291.2)
	Issue costs paid	**(3.0)**	(14.0)
	Interest element of finance lease rental payments	**(3.1)**	(3.3)
	Dividends paid to minority interests	**(2.1)**	(2.4)
	Net cash outflow for returns on investments and servicing of finance	**(313.0)**	(304.6)
	Taxation	**(0.6)**	(0.3)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(362.7)**	(280.2)
	Grants and contributions received	**22.7**	24.0
	Disposal of tangible fixed assets	**1.4**	0.9
	Net cash outflow for capital expenditure and financial investment	**(338.6)**	(255.3)
	Equity dividends paid	**(150.9)**	(217.2)
	Net cash outflow before management of liquid resources and financing	**(174.3)**	(161.0)
(b)	**Management of liquid resources**		
	(Increase)/decrease in short-term deposits and investments	**(87.0)**	86.4
	Financing		
	Increase in amounts borrowed	**610.3**	483.5
	Repayment of amounts borrowed	**(307.0)**	(437.0)
	Capital element of finance lease rental payments	**(2.8)**	(2.5)
	Net cash inflow from financing	**300.5**	44.0
(c)	**Increase/(decrease) in cash**	**39.2**	(30.6)

The notes (a) to (d) form part of this cash flow statement.

Notes to the group cash flow statement

for the year ended 31 March 2012

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

	2012 £m	2011 £m
Group operating profit	**361.8**	372.6
Depreciation (net of amortisation of deferred grants and contributions)	**268.7**	263.1
Goodwill amortisation	**72.1**	72.1
Goodwill impairment	**24.8**	-
Profit on sale of fixed assets	**(1.3)**	(0.9)
Pension curtailment	**(43.5)**	-
Difference between pension charge and cash contributions	**(35.6)**	(35.5)
Net movement in provisions	**(5.6)**	(1.9)
Working capital:		
Decrease/(increase) in stocks	**3.3**	(1.2)
Increase in debtors	**(50.2)**	(27.8)
Increase/(decrease) in creditors	**34.1**	(24.1)
	(12.8)	(53.1)
Net cash inflow from operating activities	**628.6**	616.4

(b) Management of liquid resources

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

(c) Analysis of net debt

	At 1 April 2011 £m	Cash flows £m	Non-cash movements £m	Exchange movements £m	At 31 March 2012 £m
Cash at bank and in hand	205.9	39.2	-	(0.3)	**244.8**
Deposits and investments	491.5	87.0	-	-	**578.5**
Debt due within one year	(154.6)	145.5	(225.3)	-	**(234.4)**
Debt due after one year	(6,360.2)	(443.0)	114.7	-	**(6,688.5)**
	(5,817.4)	**(171.3)**	**(110.6)**	**(0.3)**	**(6,099.6)**

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 fair value adjustments.

Included within deposits and investments above are £444.4 million (2011: £442.5 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.

At 31 March 2012, £155.5 million (2011: £131.7 million) of the group's cash at bank and in hand and £542.3 million (2011: £470.6 million) of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £8.2 million (2011: £12.3 million) of the group's deposits and investments was held as collateral for outstanding loan notes. In addition, £0.3 million (2011: £1.9 million) of the group's cash at bank and in hand and £3.0 million (2011: £2.5 million) of the deposits and investments were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

(d) **Reconciliation of net cash flow to movement in net debt**

	2012 £m	2011 £m
Increase/(decrease) in cash	**39.2**	(30.6)
Increase/(decrease) in short-term deposits and investments	**87.0**	(86.4)
Increase in amounts borrowed	**(610.3)**	(483.5)
Repayment of amounts borrowed	**307.0**	437.0
Capital element of finance lease rental payments	**2.8**	2.5
Issue costs relating to new borrowings	**3.0**	14.0
Amortisation of discount and expenses relating to debt issues	**(4.4)**	(4.2)
Amortisation of fair value adjustments	**43.4**	31.8
Indexation of loan stock and RPI swaps	**(149.6)**	(109.9)
Exchange movements	**(0.3)**	-
Movement in net debt	**(282.2)**	(229.3)
Net debt at the beginning of the year	**(5,817.4)**	(5,588.1)
Net debt at 31 March	**(6,099.6)**	(5,817.4)

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

a) **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and with the Companies (Jersey) Law 1991.

b) **Basis of preparation**

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Intra-group sales and profit are eliminated fully on consolidation.

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.

i. *Joint ventures*

Joint ventures are those entities over whose activities the group exercises joint control, established by contractual agreement. The group's interests in jointly controlled enterprises are accounted for by the gross equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised gains and losses of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

Jointly controlled operations and assets, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets, liabilities and cash flows measured according to the terms of the agreement.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and transferred to provisions.

ii. *Associates*

Associates are entities over which the group exercises significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

1. Accounting policies (continued)

c) **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 rates ruling 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 profit and loss account.

On consolidation, the profit and loss accounts of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating profit and loss accounts at average rates and restating opening net assets at closing rates are taken to reserves. Exchange differences on foreign currency borrowings are taken to reserves to the extent that they provide an effective hedge of the exchange differences arising on net investments in foreign subsidiaries.

d) **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 from sale of development properties which are not held for the long-term is recorded when a sale is completed in accordance with the profit recognition criteria in 1(e) below. Turnover includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

For Anglian Water 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 £4.3 million).

e) **Profit recognition policy**

i. *Property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year-end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses. Other profits arising from developments are included in the financial statements only when legal completion of the sale of the development has been effected.

ii. *Insurance claims and other recoveries*

Where some of the forecast expenditure on a contract is expected to be reimbursed by another party (such as an insurance company) the reimbursement is recognised only when receipt of the amount is virtually certain.

1. Accounting policies (continued)

f) **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.

g) **Bid and pre-contract costs**

Bid and pre-contract costs are written off as an expense until such time as the award of a contract becomes virtually certain.

h) **Exceptional items**

Exceptional items are one-off items which derive from events or transactions that fall within the 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 financial statements to understand the results for a particular period.

Those items which are not related to the group's normal trading activities, for example, costs of a fundamental restructuring, impairment of tangible fixed assets and profit or loss on sale of businesses and related costs are shown separately on the face of the profit and loss account after operating profit and before interest. All other exceptional items are included within operating profit.

i) **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax 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 tax is calculated at the rates at which it is estimated that taxation will arise. The deferred tax 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 tax 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 tax 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 tax 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 years.

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(l)). 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.

j) **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.

1. Accounting policies (continued)

k) **Goodwill**

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 'Fair values in acquisition accounting'. On disposal of a subsidiary undertaking, any goodwill that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

Goodwill is generally amortised over 20 years, being the Directors' best estimate of the useful economic life, or the life of the contract if less than 20 years.

Goodwill is tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. In calculation of the value in use, assumptions are made in respect of the discount rate applied to the future cash flows of income-generating units. This discount rate is selected on the basis of the inherent risk associated with the income-generating unit. Net realisable value is used to determine the recoverable amount of an income-generating unit where it is higher than the value in use or where the value will be recovered through sale. The net realisable value is calculated on the basis of the current estimated realisable value less costs to sell.

l) **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.

Adopted assets, including privates drains and sewers, are recognised at cost, which is generally £nil.

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 Anglian Water Services Limited's Asset Management Plan, which is independently certified by the Reporter.

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, 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 the 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 FRS 11 'Impairment of fixed assets and goodwill', if events or changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting policies (continued)

m) 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.

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

n) 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.

o) Investments

Investments held as fixed assets are stated at cost less any provision for impairment. For investments in subsidiary undertakings, cost includes long-term loans that are not expected to be repaid in the foreseeable future.

p) Stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

q) Long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses, and include payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

r) Bad debts

In Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary undertakings, specific provisions are made for those debts on which recovery is regarded as doubtful.

1. Accounting policies (continued)

s) 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.

t) 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.

u) Financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative 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.

Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that of the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits. 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.

On 23 November 2006 Osprey Acquisitions Limited, a wholly owned subsidiary of Anglian Water Group Limited, acquired AWG Plc and its subsidiaries. On acquisition, fair values were attributed to the net identifiable assets and liabilities acquired in accordance with the requirements of FRS 6 'Acquisitions and mergers'. The fair value adjustment made to loans and borrowings on acquisition is being amortised over the life of the individual debt instruments to which it relates and is included within interest payable.

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.

1. Accounting policies (continued)

v) **Provisions**

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The group's policy on specific areas is as follows:

i. *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.

ii. *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.

iii. *Closure costs*

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

iv. *Redundancy costs*

Redundancy costs are charged to the profit and loss account in the year 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.

v. *Self insurance*

Some subsidiary companies self insure the risks where it is commercially prudent to do so. Provision is made in respect of notified claims to the extent that it is probable that a cash settlement will arise. Provision is made in the group's captive insurance company, Rutland Insurance Limited, for the expected cost of claims incurred but not reported.

w) **Pensions**

i. *Defined Benefit Schemes*

For defined benefit schemes, 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 group's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' 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, subject to agreed liability caps, are recognised in full and presented on the face of the balance sheet, net of the related deferred tax.

ii. *Defined Contribution Schemes*

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

1. Accounting policies (continued)

x) **Key assumptions and significant judgments**

The group uses estimates and makes judgments in the preparation of its financial statements. The areas where the most judgment is required are highlighted below.

i. *Measured income accrual*

For Anglian Water 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 £4.3 million).

ii. *Pensions*

The group operates a number of defined benefit schemes (most of which are closed to new members) as well as defined contribution schemes. Under FRS 17 'Retirement benefits' the group has recognised a pension deficit (before deferred tax) of £56.1 million (2011: £83.7 million). The main assumptions are set out in note 22 of the financial statements.

iii. *Tangible fixed assets*

The tangible fixed assets used in the group are primarily the infrastructure and operational assets of the regulated water business. Operational assets have estimated economic lives of between 30 and 100 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. The depreciation charge for infrastructure assets is based on the level of future annual expenditure which requires judgment in determining this estimate. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

iv. *Taxation*

The group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities.

2. Segmental analysis

By class of business for the year ended 31 March 2012

At 31 March 2012 the group was organised into three main businesses:

- Anglian Water; regulated water, wastewater and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- Morrison Facilities Services; provides repair and maintenance and capital investment services to local authority clients.
- AWG Property; commercial and residential property developer.

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Exceptional operating profits/ (costs) and goodwill impairment £m	Goodwill amortisation £m	Total operating profit £m	Net operating assets/ (liabilities)[2] £m
Anglian Water	**1,138.0**	**450.8**	41.3	(68.7)	**423.4**	**6,475.0**
Morrison Facilities Services	**290.7**	**(6.4)**	(31.7)	(3.4)	**(41.5)**	**18.1**
AWG Property	**21.0**	**(6.0)**	-	-	**(6.0)**	**15.1**
Other [1]	**35.9**	**(15.0)**	2.2	-	**(12.8)**	**(33.4)**
Less: Intersegmental trading	**(0.8)**	**-**	-	-	**-**	**-**
	1,484.8	**423.4**	**11.8**	**(72.1)**	**363.1**	**6,474.8**
Net debt						**(6,099.6)**
Current tax						**1.5**
Deferred tax						**(78.4)**
						298.3
Total						
– Group	1,474.2	422.1	11.8	(72.1)	361.8	
– Joint ventures	10.6	1.3	-	-	1.3	

[1] The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland, Alpheus Environmental which operates industrial and commercial wastewater treatment works, and a few residual international interests.

[2] Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.

2. Segmental analysis (continued)

By class of business for the year ended 31 March 2011

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Exceptional operating profits £m	Goodwill amortisation £m	Total operating profit £m	Net operating assets/ (liabilities) £m
Anglian Water	1,092.3	447.3	-	(68.7)	378.6	6,439.8
Morrison Facilities Services	274.1	14.2	2.9	(3.4)	13.7	54.4
AWG Property	16.6	(10.5)	-	-	(10.5)	11.6
Other	36.0	(15.1)	12.7	-	(2.4)	(39.4)
Less: Intersegmental trading	(0.7)	(1.4)	-	-	(1.4)	-
	1,418.3	434.5	15.6	(72.1)	378.0	6,466.4
Net debt						(5,817.4)
Current tax						(3.7)
Deferred tax						(63.3)
						582.0
Total						
– Group	1,412.0	432.8	11.9	(72.1)	372.6	
– Joint ventures	6.3	1.7	3.7	-	5.4	

By geographical segment

	Turnover		Total operating profit		Net operating assets/(liabilities)	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
United Kingdom	**1,460.2**	1,393.4	**359.5**	371.8	**6,474.9**	6,468.1
Europe	**21.6**	21.2	**3.7**	3.7	**1.5**	0.9
Rest of world	**3.0**	3.7	**(0.1)**	2.5	**(1.6)**	(2.6)
	1,484.8	1,418.3	**363.1**	378.0	**6,474.8**	6,466.4

There is no material difference between turnover by geographical origin and by geographical destination.

3. Group operating costs

	2012			2011		
	Before exceptional operating (profits)/ costs £m	**Exceptional operating (profits)/ costs [1] £m**	**Total £m**	Before exceptional operating profits £m	Exceptional operating profits [1] £m	Total £m
Raw materials and consumables	57.7	-	**57.7**	52.1	-	52.1
Other operating costs	504.6	3.7	**508.3**	455.6	(11.9)	443.7
Staff costs (see note 9)	279.5	(40.3)	**239.2**	259.4	-	259.4
Change in stocks of finished goods and work in progress	2.8	-	**2.8**	(0.9)	-	(0.9)
Own work capitalised	(59.9)	-	**(59.9)**	(49.2)	-	(49.2)
Profit on sale of fixed assets [2]	(1.3)	-	**(1.3)**	(0.9)	-	(0.9)
Operating costs before depreciation and amortisation	783.4	(36.6)	**746.8**	716.1	(11.9)	704.2
Depreciation of tangible fixed assets	276.9	-	**276.9**	271.0	-	271.0
Amortisation of deferred grants and contributions	(8.2)	-	**(8.2)**	(7.9)	-	(7.9)
Depreciation net of amortisation of deferred grants and contributions	268.7	-	**268.7**	263.1	-	263.1
Total before amortisation of intangible assets	1,052.1	(36.6)	**1,015.5**	979.2	(11.9)	967.3
Amortisation of intangible assets	72.1	24.8	**96.9**	72.1	-	72.1
Group operating costs	**1,124.2**	**(11.8)**	**1,112.4**	1,051.3	(11.9)	1,039.4

(1) Exceptional operating (profits)/costs in 2012 comprise the gain on curtailment arising on pension schemes, £43.5 million, together with restructuring costs within Morrison Facilities Services of £8.9 million and the release of £2.0 million of amounts previously provided in respect of prior year disposals. In addition, goodwill impairment of £24.8 million has been charged in respect of the Morrison Facilities Services business (see note 4).

The exceptional operating profits in 2011 of £11.9 million relate to the settlement of outstanding items associated with prior year disposals.

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

4. Exceptional items

	2012 £m	2011 £m
Exceptional operating profits/(costs)		
Group	**36.6**	11.9
Share of joint ventures	**-**	3.7
	36.6	15.6
Goodwill impairment		
Morrison Facilities Services	**(24.8)**	-
Total exceptional items	**11.8**	15.6

Following a comprehensive review process, in 2012 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme. These changes resulted in a curtailment credit of £43.5 million (see note 22).

Morrison Facilities Services incurred restructuring costs of £8.9 million in reducing their cost base and exiting certain unprofitable contracts. In addition, Morrison released £2.0 million of amounts previously provided in respect of prior year disposals.

The Morrison Facilities Services business has performed below expectations during the year. An impairment review has been undertaken in accordance with FRS 11 'Impairment of fixed assets and goodwill' which has resulted in a goodwill impairment charge of £24.8 million.

Exceptional operating profits for the year ended 31 March 2011 relate to the settlement of outstanding items associated with prior year disposals which resulted in the release of £11.9 million in respect of amounts previously provided. In addition, following the termination of a contract within one of the group's joint ventures, a settlement gain of £3.7 million was recognised on the defined benefit pension scheme.

A tax charge of £9.0 million (2011: £1.0 million) has been included in respect of these items.

5. Net interest payable and similar charges

	2012 £m	2011 £m
Interest payable on bank loans and overdrafts	**(0.6)**	-
Interest payable on other loans including financing expenses	**(318.1)**	(304.8)
Indexation	**(149.6)**	(109.9)
Interest payable on finance leases	**(2.9)**	(3.2)
Amortisation of fair value adjustments	**43.4**	31.8
Group interest and similar charges payable	**(427.8)**	(386.1)
Share of joint venture interest payable	**(1.5)**	(1.6)
Total interest and similar charges payable	**(429.3)**	(387.7)
Group interest receivable	**6.9**	6.5
Net interest payable and similar charges	**(422.4)**	(381.2)
Total		
– Group	**(420.9)**	(379.6)
– Joint ventures	**(1.5)**	(1.6)

6. Other finance costs (net)

	2012 £m	2011 £m
Unwinding of discount on onerous lease obligation provision (see note 20)	**(0.7)**	(0.6)
Defined benefit pension scheme interest charge (see note 22(b))	**(1.2)**	(8.6)
	(1.9)	(9.2)

7. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2012 £m	2011 £m
Profit on disposal of tangible fixed assets	**(1.3)**	(0.9)
Operating lease rentals		
– Land and buildings	**12.1**	12.7
– Plant and machinery	**8.8**	5.7
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
– Owned assets	**260.8**	255.1
– Under finance leases	**7.9**	8.0
Amortisation of goodwill – subsidiaries	**72.1**	72.1
Impairment of goodwill - subsidiaries	**24.8**	-
Research and development expenditure	**0.1**	0.2
Fees paid to the auditors:		
– Auditing the company's financial statements and the accounts of any associate of the company	**0.4**	0.6
– Audit-related assurance services	**0.1**	0.2
– Other assurance services	**-**	0.1
– Other non-audit services	**0.6**	0.6
Total fees paid to the auditors	**1.1**	1.5

8. Taxation

	2012 **£m**	2011 £m
Analysis of charge in the year		
Current tax:		
UK corporation tax – current year	**8.8**	-
Adjustment in respect of previous periods	**(7.1)**	(4.7)
Share of joint ventures current tax	**-**	0.2
	1.7	(4.5)
Foreign tax	**0.5**	0.5
Total current tax charge/(credit)	**2.2**	(4.0)
Deferred tax:		
Charge for timing differences arising in year	**3.3**	14.8
Impact of discounting on deferred tax liability	**(7.4)**	0.6
Impact of decrease in discount rates	**44.4**	5.0
Adjustments in respect of previous periods	**(1.7)**	14.3
Effect of reduction in corporation tax rate	**(8.2)**	(12.5)
Share of joint ventures deferred tax	**-**	1.0
Total deferred tax charge (see note 21)	**30.4**	23.2
Total tax charge on loss on ordinary activities	**32.6**	19.2

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £44.4 million (2011: £5.0 million) in the year. If all UK gilt rates moved by 0.25%, a change in the tax charge of between £10.0 million and £15.0 million would occur.

During the year, as a result of the change in the UK corporation tax rate from 26% to 24% that is effective from 1 April 2012, all relevant deferred tax balances have been re-measured. Further changes to the UK corporation tax rate have been announced which propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes, which are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements.

The effect of the proposed reduction in the corporation tax rate to 23% from 1 April 2013, which is expected to be enacted in the Finance Act 2012, would be to reduce the deferred tax liability provided at the balance sheet date, and to reduce the tax charge for the year ended 31 March 2013, by £4.4 million. The proposed reduction in the rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately and, if it applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax liability by an additional £4.4 million.

The current tax adjustment in respect of previous periods relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of previous periods, for both 2012 and 2011, relate to adjustments to prior year capital allowance claims.

In addition to the current tax charge above, a £8.8 million (2011: £nil) 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 were in excess of the pension costs charged to the profit and loss account.

8. **Taxation** (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower (2011: higher) than the standard rate of corporation tax in the UK of 26% (2011: 28%). The differences are explained below:

	2012 £m	2011 £m
Loss on ordinary activities before taxation	**(61.2)**	(12.4)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 26% (2011: 28%)	**(15.9)**	(3.5)
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	**28.9**	24.1
Items not taxable	**-**	(2.9)
Capital allowances for the year less than depreciation	**21.8**	3.0
Short-term timing differences	**(25.1)**	(18.8)
Difference in foreign tax rates	**(0.5)**	(0.6)
Losses in joint venture companies	**0.1**	0.1
Losses brought forward	**-**	(0.7)
Adjustments in respect of previous periods	**(7.1)**	(4.7)
Current tax charge/(credit) for the year	**2.2**	(4.0)

The company is not subject to Jersey income tax and withholding tax, having elected for Jersey exempt company status and paying the appropriate annual fee.

9. Employee information

	2012 £m	2011 £m
Staff costs for the group		
Wages and salaries	**238.1**	216.9
Social security costs	**21.1**	19.0
Pension costs – defined contribution (see note 22)	**7.6**	6.4
Pension costs – defined benefit (see note 22)	**(27.6)**	17.1
	239.2	259.4

Staff costs for the year ended 31 March 2012 include £44.6 million (2011: £35.9 million) of costs that have been capitalised within 'own work capitalised' and £3.2 million (2011: £nil) of redundancy costs charged to exceptional operating costs. In addition, the defined benefit pension costs for the year ended 31 March 2012 are net of the curtailment credit on pensions of £43.5 million (see note 22(b)).

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	2012	2011
Anglian Water	**3,765**	3,696
Morrison Facilities Services	**3,454**	2,894
AWG Property	**12**	14
Other	**236**	294
	7,467	6,898

The 'Other' business segment mainly comprises head office, Celtic Anglian Water, Alpheus Environmental and a few residual international interests.

The company

The company has no employees (2011: none).

10. Profit of the parent company

The company has not presented its own profit and loss account as permitted by FRS 2 'Accounting for subsidiary undertakings'. The profit for the year, dealt with in the financial statements of the company, is £150.7 million (2011: £216.8 million).

11. Dividends

Interim dividends paid during the year

	2012 £m	2011 £m
Paid on:		
8 December 2011	**50.9**	-
8 June 2011	**100.0**	-
8 December 2010	**-**	107.2
8 June 2010	**-**	110.0
	150.9	217.2

In addition, a first interim dividend of £49.5 million in respect of the year ended 31 March 2013 was approved by the board on 30 May 2012 and was paid on 8 June 2012. This dividend has not been included as a liability at 31 March 2012.

12. Intangible assets

	Goodwill £m
The group	
Cost	
At 1 April 2011 and 31 March 2012	**1,442.1**
Amortisation	
At 1 April 2011	**(313.6)**
Charge for the year	**(72.1)**
Impairment	**(24.8)**
At 31 March 2012	**(410.5)**
Net book amount	
At 31 March 2012	**1,031.6**
At 31 March 2011	1,128.5

The Morrison Facilities Services business has performed below expectations during the year. An impairment review has been undertaken in accordance with FRS 11 'Impairment of fixed assets and goodwill' which has resulted in a goodwill impairment charge of £24.8 million.

The company

The company has no intangible assets (2011: none).

13. Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2011	42.7	3,233.6	2,835.8	477.0	172.3	**6,761.4**
Additions	0.4	-	-	3.0	409.0	**412.4**
Transfers on commissioning	0.9	101.0	73.6	58.9	(234.4)	**-**
Disposals	-	-	(0.1)	(0.8)	-	**(0.9)**
At 31 March 2012	**44.0**	**3,334.6**	**2,909.3**	**538.1**	**346.9**	**7,172.9**
Grants and contributions						
At 1 April 2011	-	(54.3)	-	-	(0.1)	**(54.4)**
Additions	-	(11.7)	-	-	(1.4)	**(13.1)**
At 31 March 2012	**-**	**(66.0)**	**-**	**-**	**(1.5)**	**(67.5)**
Depreciation						
At 1 April 2011	(3.4)	(340.1)	(506.0)	(241.9)	-	**(1,091.4)**
Charge for the year	(0.7)	(82.8)	(131.2)	(62.2)	-	**(276.9)**
Disposals	-	-	-	0.8	-	**0.8**
At 31 March 2012	**(4.1)**	**(422.9)**	**(637.2)**	**(303.3)**	**-**	**(1,367.5)**
Net book amount						
At 31 March 2012	**39.9**	**2,845.7**	**2,272.1**	**234.8**	**345.4**	**5,737.9**
At 31 March 2011	39.3	2,839.2	2,329.8	235.1	172.2	5,615.6

Tangible fixed assets at 31 March 2012 include land of £24.7 million (2011: £24.5 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to tangible fixed assets held under finance leases:

	2012 £m	2011 £m
Cost	**113.6**	113.6
Aggregate depreciation	**(40.8)**	(32.9)
Net book amount at 31 March	**72.8**	80.7
Depreciation charged in year	**(7.9)**	(8.0)

The company

The company has no tangible fixed assets (2011: none).

14. Investments

a) Joint ventures

	£m
The group	
Amount under equity method of accounting	
At 1 April 2011	-
Loss for the year	**(0.2)**
Dividends	**(0.2)**
Amounts offset against trade balances	**0.4**
At 31 March 2012	**-**

The loss for the year of joint ventures is stated after operating profits of £1.3 million (2011: £5.4 million) less interest payable of £1.5 million (2011: £1.6 million) and a tax charge of £nil (2011: £1.2 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2012.

Undertaking	Country of incorporation	Activity	Proportion of shares held
AWG Property			
Excel Centre Aberdeen Limited	Scotland	Property development	50%
Shawlands Retail Limited	Scotland	Property development	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Anglian Water Group Limited.

The accounting year-end for the above undertakings is 31 March, with the exception of Excel Centre Aberdeen Limited which has a year-end of 31 May. The class of shares held is ordinary shares of £1 each.

b) Other investments

Other investments include a 4.25% investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina. This investment is held at its cost of £nil (2011: £nil). The net book value at 31 March 2012 included £nil (2011: £nil) of shares.

14. Investments (continued)

c) Subsidiary undertakings

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Total £m
The company			
Cost			
At 1 April 2011 and 31 March 2012	**548.0**	**663.2**	**1,211.2**

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

The principal subsidiary undertakings of the group are listed in note 30.

15. Stocks

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Raw materials and consumables	**10.8**	11.3	**-**	-
Work in progress	**15.4**	18.2	**-**	-
	26.2	29.5	**-**	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

16. Debtors

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Amounts falling due within one year				
Trade debtors	**197.7**	186.1	**-**	-
Amounts due from customers for contract work	**0.1**	0.7	**-**	-
Amounts owed by joint ventures				
– Trade balances	**0.5**	0.2	**-**	-
– Loans	**11.3**	8.3	**-**	-
Corporation tax recoverable	**1.5**	-	**-**	-
Other debtors	**16.1**	12.3	**-**	-
Prepayments and accrued income	**221.1**	189.6	**-**	-
	448.3	397.2	**-**	-

Prepayments and accrued income as at 31 March 2012 includes water and wastewater income not yet billed of £173.1 million (2011: £144.2 million).

17. Creditors: amounts falling due within one year

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Current portion of loans and other borrowings	**230.9**	151.6	**-**	-
Obligations under finance leases	**3.5**	3.0	**-**	-
Short-term borrowings (see note 19)	**234.4**	154.6	**-**	-
Trade creditors	**193.0**	121.7	**-**	-
Receipts in advance	**121.3**	116.9	**-**	-
Amounts owed to joint ventures	**0.5**	0.5	**-**	-
Other creditors	**14.7**	8.7	**-**	-
Corporation tax	**-**	3.7	**-**	-
Other taxation and social security	**12.6**	12.3	**-**	-
Accruals and deferred income	**199.0**	196.9	**-**	-
Deferred grants and contributions	**8.1**	7.8	**-**	-
Other creditors	**549.2**	468.5	**-**	-

Receipts in advance includes £107.4 million (2011: £101.6 million) relating to amounts received from customers for water and wastewater charges in respect of bills that fall due in the following year.

18. Creditors: amounts falling due after more than one year

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Non-current portion of long-term loans	**6,630.8**	6,299.1	**-**	-
Obligations under finance leases	**57.7**	61.1	**-**	-
Loans and other borrowings (see note 19)	**6,688.5**	6,360.2	**-**	-
Other creditors	**0.4**	2.9	**-**	-
Deferred grants and contributions	**132.1**	131.1	**-**	-
Other creditors	**132.5**	134.0	**-**	-

19. Loans, other borrowings and financial instruments

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Loans and other borrowings				
£100 million 12.375% fixed rate 2014 (d), (g)	**107.8**	112.1	**-**	-
£250 million 5.837% fixed rate 2022 (d), (g)	**262.3**	263.6	**-**	-
£200 million 6.875% fixed rate 2023 (d), (g)	**224.0**	226.1	**-**	-
£200 million 6.625% fixed rate 2029 (d), (g)	**222.2**	223.5	**-**	-
£246 million 6.293% fixed rate 2030 (d), (g)	**273.6**	275.1	**-**	-
£275 million 7.882% fixed rate 2012/2037 [(1)] (d), (f), (g), (i)	**217.8**	295.8	**-**	-
£250 million 5.25% fixed rate 2015 (b), (d), (g)	**251.2**	251.6	**-**	-
£150 million 5.5% fixed rate 2017/2040 [(2)] (b), (d), (f), (g)	**150.5**	150.6	**-**	-
£150 million 4.125% index-linked 2020 (c), (d), (g)	**240.0**	232.5	**-**	-
£75 million 3.666% index-linked 2024 (c), (d), (g)	**117.3**	113.6	**-**	-
£200 million 3.07% index-linked 2032 (c), (d), (g)	**329.5**	318.9	**-**	-
£60 million 3.07% index-linked 2032 (c), (d), (g)	**99.2**	96.2	**-**	-
Finance leases (b), (d), (g), (i)	**61.2**	64.1	**-**	-
£150 million index-linked swap 2024 (e), (g)	**40.4**	32.7	**-**	-
£175 million index-linked swap 2030 (e), (g)	**57.8**	48.6	**-**	-
£258 million index-linked swap 2013 (e), (g)	**78.3**	62.3	**-**	-
Euro 650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	**456.9**	459.3	**-**	-
US$195 million 7.23% private placements 2011 (a), (d), (g)	**-**	139.2	**-**	-
£402 million 2.4% index-linked 2035 (c), (d), (g)	**522.2**	498.1	**-**	-
£50 million 1.7% index-linked 2046 (c), (d), (g)	**69.7**	67.0	**-**	-
£50 million 1.7% index-linked 2046 (c), (d), (g)	**69.7**	67.0	**-**	-
£40 million 1.7146% indexation bond 2056 (c), (d), (g)	**58.5**	56.3	**-**	-
£50 million 1.6777% indexation bond 2056 (c), (d), (g)	**72.5**	69.8	**-**	-
£60 million 1.7903% indexation bond 2049 (c), (d), (g)	**86.9**	83.7	**-**	-
£100 million 1.3784% indexation bond 2057 (c), (d), (g)	**121.4**	115.5	**-**	-
£50 million 1.3825% indexation bond 2056 (c), (d), (g)	**60.7**	57.7	**-**	-
£100 million Class A wrapped floating rate bonds (d), (g)	**99.9**	99.9	**-**	-
£100 million index-linked swap 2057 (e), (g)	**19.8**	14.1	**-**	-
£75 million 1.449% indexation bond 2062 (c), (d), (g)	**85.5**	81.5	**-**	-
£50 million 1.52% indexation bond 2055 (c), (d), (g)	**56.9**	54.3	**-**	-
JPY 15 billion 2.925% fixed rate bond 2018/2037 (a), (b), (d), (g)	**65.9**	65.9	**-**	-
£65.9 million index-linked swap 2059 (e), (g)	**9.4**	5.9	**-**	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	**109.9**	109.9	**-**	-
£50 million index-linked swap 2043 (e), (g)	**7.0**	4.3	**-**	-
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (g)	**25.0**	25.0	**-**	-
Euro 500 million 6.25% fixed rate bond 2016 (a), (d), (g)	**392.9**	392.7	**-**	-
£25 million 6.875% private placements 2034 (d), (g)	**24.6**	24.6	**-**	-
£100 million Class B 6.75% fixed rate bond 2024 [(3)] (d), (g)	**99.0**	98.9	**-**	-
EIB £50 million 1.626% index-linked term facility 2019 (c), (d), (g)	**56.1**	53.6	**-**	-
EIB £50 million 1.3% index-linked term facility 2020 (c), (g)	**55.4**	52.9	**-**	-
£130 million 2.262% indexation bond 2045 (c), (d), (g)	**140.0**	133.6	**-**	-
US$ 160 million 4.52% private placements 2021 (a), (b), (d), (g)	**98.5**	-	**-**	-
US$ 410 million 5.18% private placements 2021 (a), (b), (d), (g)	**258.6**	-	**-**	-
EIB £75 million 0.53% index-linked term facility 2027 [(4)] (c), (d), (g)	**75.3**	-	**-**	-
EIB £75 million 0.79% index-linked term facility 2027 [(4)] (c), (d), (g)	**75.3**	-	**-**	-
£100 million term facility (b), (d), (h)	**96.4**	95.2	**-**	-
£350 million Class B 7.0% fixed rate bond 2018 (d), (h)	**343.9**	342.9	**-**	-
Loan notes LIBOR minus 0.50% 2012 (i)	**8.2**	12.3	**-**	-
£462 million 10% unsecured loan notes 2018 (d)	**461.3**	461.1	**-**	-
Other loans (i)	**6.5**	5.3	**-**	-
Total loans and other borrowings	**6,922.9**	6,514.8	**-**	-
Less amounts included in creditors falling due within one year	**(234.4)**	(154.6)	**-**	-
Loans and other borrowings due after more than one year	**6,688.5**	6,360.2	**-**	-

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

(a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings. The adjustment to the US dollar borrowings is £3.4 million (2011: £17.1 million), the adjustment to the Euro borrowings is £(111.8) million (2011: £(168.6) million) and the adjustment to the Japanese Yen borrowings is £(60.3) million (2011: £(59.3) 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.

(c) The value of the capital and interest elements of the index-linked loans are linked to movements in the Retail Price Index. The total increase in the capital value of index-linked loans during the year of £100.9 million (2011: £82.7 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 (2011: 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. The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £48.7 million (2011: £27.2 million) has been taken to the profit and loss account as part of interest payable. In addition a forward starting index-linked interest rate swap agreement for £25.0 million has been contracted at 31 March 2012.

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

(g) A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, 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 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 Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2012 this charge applies to £6,006.6 million (2011: £5,598.0 million) of the debt listed above.

(h) A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2012 this charge applies to £440.3 million (2011: £438.1 million) of the debt listed above.

(i) Amounts repayable wholly or partly within one year.

(1) The coupon for this instrument will increase to floating rate LIBOR plus 6.0% effective July 2012. The bond contains an issuer call option whereby from 30 July 2012 the bond can be redeemed on any interest payment date for 100% of the nominal amount of the bond. During the year to 31 March 2012 the group repurchased and cancelled £64.3 million bonds of this instrument.

(2) The coupon for this instrument will increase to floating rate 3 month LIBOR plus 3.5% effective October 2017. The bond contains an issuer call option whereby the bond can be redeemed on 10 October 2017 and on any interest payment date from 10 January 2018 for 100% of the nominal amount of the bond.

(3) The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10.9% effective June 2014. The bond contains an issuer call option whereby the bond can be redeemed at par on 11 June 2014 and each interest payment date thereafter.

(4) These instruments are amortising from 2017 until the date of maturity shown.

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

Maturity analysis of financial liabilities

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

	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
At 31 March 2012				
Less than one year	230.9	3.5	7.5	**241.9**
Between one and two years	644.6	3.9	4.5	**653.0**
Between two and five years	740.5	18.6	7.8	**766.9**
After five years	5,245.7	35.2	24.0	**5,304.9**
	6,861.7	**61.2**	**43.8**	**6,966.7**
At 31 March 2011				
Less than one year	151.6	3.0	10.1	164.7
Between one and two years	4.1	3.4	5.8	13.3
Between two and five years	981.7	17.0	10.4	1,009.1
After five years	5,313.3	40.7	20.3	5,374.3
	6,450.7	64.1	46.6	6,561.4

The group analysis is net of issue costs of £32.8 million (2011: £34.2 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 5).

Other financial liabilities comprise creditors: amounts falling due after more than one year of £0.4 million (2011: £2.9 million) and provisions of £43.4 million (2011: £43.7 million).

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

	2012		2011	
	Creditors: amounts falling due within one year £m	**Creditors: amounts falling due after more than one year £m**	Creditors: amounts falling due within one year £m	Creditors: amounts falling due after more than one year £m
Amounts owed	**226.2**	**6,661.8**	151.6	6,328.0
Debt issue costs	**(0.1)**	**(32.7)**	-	(34.2)
Obligations under finance leases	**3.5**	**57.7**	3.0	61.1
Other loans	**4.8**	**1.7**	-	5.3
	234.4	**6,688.5**	154.6	6,360.2

Borrowing facilities

	2012 £m	2011 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	**360.0**	383.0
Expiring between one and two years	**-**	355.0
Expiring between two and five years	**445.0**	25.0
	805.0	763.0

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

Financing structure

The group's regulated water and wastewater business, Anglian Water, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2012 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.2% (2011: 78.5%).

The group has also raised finance within Osprey Holdco Limited, Osprey Acquisitions Limited and Anglian Water (Osprey) Financing Plc. During the year a new £100 million drawn term facility and £25 million undrawn revolving facility was utilised in Anglian Water (Osprey) Financing Plc, replacing the £100 million drawn term facility and £25 million undrawn revolving facility in Osprey Acquisitions Limited when these matured in October 2011.

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance & Non Regulated Business, substantially 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; and
- monitor counter party credit exposure.

Management of financial risk

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

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance & Non Regulated Business and the Group Treasurer, 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, treasury bills and AAA rated money funds.

The group 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 strategy.

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by Osprey Holdco Limited, Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc and Anglian Water Services Financing Plc. 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.

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

Market risk

a) *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 particular operation.

b) *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.

c) *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.

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.

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.

Fair value of financial assets and financial liabilities

	2012		2011	
	Book value £m	**Fair value [1] £m**	Book value £m	Fair value [1] £m
Cash at bank and in hand (including short-term deposits)	**689.2**	**689.2**	648.4	648.4
Current asset investments	**134.1**	**134.1**	49.0	49.0
Short-term borrowings	**(234.3)**	**(232.4)**	(137.2)	(140.5)
Long-term borrowings	**(6,639.3)**	**(7,155.9)**	(6,413.3)	(6,468.0)
Interest rate swaps	**163.3**	**203.2**	203.6	234.7
Index-linked swaps	**(212.6)**	**(583.4)**	(167.9)	(449.1)
Net debt	**(6,099.6)**	**(6,945.2)**	(5,817.4)	(6,125.5)
Energy hedging instruments	**-**	**(0.7)**	-	24.8
Provisions excluding deferred tax (see note 20)	**(43.4)**	**(78.9)**	(43.7)	(40.6)
Other financial liabilities	**(0.4)**	**(0.4)**	(2.9)	(2.9)
	(6,143.4)	**(7,025.2)**	(5,864.0)	(6,144.2)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £122.4 million (2011: £124.6 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors: amounts falling due within one year.

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

Fair value of financial assets and financial liabilities (continued)

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.

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 2012. The value at that date was determined by market interest rates, which fluctuate over time.

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 2012. The value at that date was determined by market rates, which fluctuate over time.

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.

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

Unrecognised gains and losses on hedges

			2012			2011
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised at the beginning of the year	114.3	(336.5)	**(222.2)**	109.0	(273.9)	(164.9)
Reversal of items unrecognised at beginning of year	(8.0)	-	**(8.0)**	(2.1)	5.9	3.8
Recognised during the year	(48.4)	55.8	**7.4**	(31.0)	48.9	17.9
Arising during the year	55.6	(199.9)	**(144.3)**	38.4	(117.4)	(79.0)
Unrecognised at 31 March	**113.5**	**(480.6)**	**(367.1)**	114.3	(336.5)	(222.2)

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 £367.1 million (2011: £222.2 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 2012.

Of the unrecognised gains and losses at 31 March 2012, a net gain of £20.2 million (2011: £5.9 million) is expected to be included in the profit and loss account for the year ended 31 March 2013 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.

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

Currency and interest rate analysis of net financial assets/(liabilities)

	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
At 31 March 2012							
Total borrowings (all sterling) [1]	**(6,922.9)**	(3,411.8)	(584.9)	(2,926.2)	-	**7.8%**	**8.8**
Cash, deposits and current asset investments:							
– Sterling	**817.1**	-	817.1	-	-		
– Euro	**5.3**	-	5.3	-	-		
– Other currencies	**0.9**	-	0.9	-	-		
Net debt	**(6,099.6)**	(3,411.8)	238.4	(2,926.2)	-		
Provisions	**(43.4)**	-	-	-	(43.4)		
Other financial liabilities	**(0.4)**	-	-	-	(0.4)		
Net financial assets/(liabilities)	**(6,143.4)**	**(3,411.8)**	**238.4**	**(2,926.2)**	**(43.8)**		
At 31 March 2011							
Total borrowings (all sterling) [1]	(6,514.8)	(3,128.1)	(295.4)	(3,091.3)	-	7.2%	11.0
Cash, deposits and current asset investments:							
– Sterling	691.6	-	691.6	-	-		
– Euro	4.7	-	4.7	-	-		
– Other currencies	1.1	-	1.1	-	-		
Net debt	(5,817.4)	(3,128.1)	402.0	(3,091.3)	-		
Provisions	(43.7)	-	-	-	(43.7)		
Other financial liabilities	(2.9)	-	-	-	(2.9)		
Net financial assets/(liabilities)	(5,864.0)	(3,128.1)	402.0	(3,091.3)	(46.6)		

[1] The underlying currencies of borrowings as set out in the table of loans and other borrowings on page 51 have been swapped to sterling.

The above tables reflect the net position after hedging arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at the year-end. Floating rate cash and investments earn interest based on LIBID (London Inter Bank Bid Rate) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

20. Provisions for liabilities

	Deferred tax £m	Onerous leases £m	Other onerous contracts £m	Business closures and disposals £m	Contract and other £m	Total £m
The group						
At 1 April 2011	63.3	22.2	12.7	6.3	2.5	**107.0**
Charge/(credit) for the year	17.1	4.5	4.6	(2.0)	0.3	**24.5**
Unwinding of discount	-	0.7	-	-	-	**0.7**
Write back of ACT	(2.0)	-	-	-	-	**(2.0)**
Utilised in the year	-	(4.8)	-	(2.2)	(1.4)	**(8.4)**
At 31 March 2012	**78.4**	**22.6**	**17.3**	**2.1**	**1.4**	**121.8**

The deferred tax provision and the effect of discounting is analysed in note 21.

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. 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 2046.

Business closure and disposal provisions relate to exit costs, principally the disposal of the international businesses, and the restructuring of the Property business, which are expected to crystallise over a period of two years.

The contract and other provisions comprise uncertain warranty and certification costs of £1.1 million (2011: £1.4 million), which are expected to crystallise over a period of approximately two years and £0.3 million (2011: £1.1 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately 10 years.

The company

The company has no provisions for liabilities (2011: none).

21. Deferred tax

The group

The total tax charge in the current year includes provisions for discounted deferred tax. Consequently, changes in the medium-term and long-term interest rates used to discount deferred tax assets and liabilities can affect the amount of deferred tax 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 £64.3 million.

	£m
At 1 April 2011	**63.3**
Deferred tax charged to the profit and loss account	**30.4**
Less amounts included elsewhere in the balance sheet:	
– Deferred tax charged in respect of movements in the deferred tax asset on pension liabilities	**(13.3)**
Write back of ACT	**(2.0)**
At 31 March 2012	**78.4**

	2012 £m	2011 £m
Accelerated capital allowances	**782.5**	870.9
Short-term timing differences	**(95.0)**	(116.0)
Surplus ACT asset	**(142.5)**	(140.5)
Undiscounted provision for deferred tax	**545.0**	614.4
Discount	**(466.6)**	(551.1)
Discounted provision for deferred tax	**78.4**	63.3
Deferred tax asset on pension liability (see note 22)	**(13.5)**	(21.8)
Total deferred tax liability included in the balance sheet	**64.9**	41.5
The following are deferred tax assets that are not recognised in the accounts		
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**2.6**	2.6
	25.4	25.4

The surplus ACT of £22.8 million was written off in subsidiary undertakings in prior years and will not be recognised in the balance sheet until its recoverability becomes certain. The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has no deferred tax (2011: none).

22. Pension commitments

Pension arrangements for the majority of the group's UK employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS'), the Morrison Facilities Pension Scheme ('MFPS') and various other smaller arrangements. The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). These are all final salary. In addition, pensions in payment to a number of former employees are unfunded. The administration and investment of the pension funds are maintained separately from the finances of the group. The group's actuary is PricewaterhouseCoopers LLP.

The majority of the defined benefit arrangements are closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

A full valuation as at 31 March 2011 has been completed for AWGPS and the results of which have been used as a basis for the FRS 17 disclosures as at 31 March 2012. A full valuation is ongoing for MPLAP as at 1 April 2011.

Following a comprehensive review process, in 2011 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme. These changes resulted in a curtailment credit of £43.5 million.

The group contributed 21.2% (2011: 21.2%) of pensionable pay plus £21.8 million (2011: £20.8 million) per annum to AWGPS during the year. Contributions to MPLAP were £7.1 million (2011: £7.1 million) during the year and to MFPS were 21.4% (2011: 21.4%) of pensionable salaries plus £117,000 (2011: £132,000) per month. In the year to 31 March 2013, employers' contributions are expected to be £44.4 million.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £7.6 million (2011: £6.4 million).

22. Pension commitments (continued)

a) Principal actuarial assumptions

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

	2012 % pa	2011 % pa
Discount rate	**4.8**	5.5
Inflation rate		
– RPI	**3.3**	3.4
– CPI	**2.5**	2.7
Increase to deferred benefits during deferment		
– RPI	**3.3**	3.4
– CPI	**2.5**	2.7
Increases to inflation related pensions in payment		
– RPI	**3.2** (1)	3.4
– CPI	**2.5** (1)	2.7
General salary increases	**2.5** (2) **/ 4.3**	4.4

	2012 years	2011 years
Longevity at age 65 for current pensioners		
– Men	**23.0**	23.5
– Women	**25.2**	25.9
Longevity at age 65 for future pensioners (3)		
– Men	**24.8**	25.5
– Women	**27.2**	27.7

(1) For MFPS, the assumption for RPI pension increases capped at 5% is 3.2% (2011: 3.3%), for CPI pension increases capped at 5% the assumption is 2.5% (2011: 2.7%). Additionally, heavier mortality is assumed for this scheme, with life expectancy at age 65 for current pensioners being 20.6 years (2011: 20.3 years) for males and 22.8 years (2011: 22.5 years) for females. For members reaching 65 in 2032, the life expectancy at age 65 is 22.0 years (2011: 21.7 years) for males and 24.3 years (2011: 24.1 years) for females.

(2) As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees that are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5% per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.3% per annum) and RPI price inflation (3.3% per annum) are both above 2.5% per annum at 31 March 2012, the 2.5% cap on future pensionable salary increases is assumed to apply. Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5% per annum over the period from 1 April 2012 to retirement or earlier leaving.

(3) The life expectancy shown for future pensioners is for those reaching 65 in 2032.

22. Pension commitments (continued)

b) Amounts recognised in profit or loss

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2012				
Analysis of amount credited/(charged) to staff costs within operating profit (see note 9)				
Current service cost	(10.8)	(5.1)	-	**(15.9)**
Past service cost	(0.9)	0.9	-	**-**
Gain on curtailment (see note 4)	43.5	-	-	**43.5**
Total operating credit/(charge)	**31.8**	**(4.2)**	**-**	**27.6**
Analysis of amount (charged)/credited to other finance income (see note 6)				
Expected return on pension scheme assets	53.3	18.0	-	**71.3**
Interest on pension scheme liabilities	(53.1)	(17.0)	(2.4)	**(72.5)**
Net (charge)/return	**0.2**	**1.0**	**(2.4)**	**(1.2)**
Total credit/(charge) to profit on ordinary activities before taxation	**32.0**	**(3.2)**	**(2.4)**	**26.4**
2011				
Analysis of amount charged to staff costs within operating profit				
Current service cost	(11.1)	(5.2)	-	(16.3)
Past service cost	(0.8)	-	-	(0.8)
Total operating charge	(11.9)	(5.2)	-	(17.1)
Analysis of amount (charged)/credited to other finance income				
Expected return on pension scheme assets	49.1	17.8	-	66.9
Interest on pension scheme liabilities	(55.5)	(17.3)	(2.7)	(75.5)
Net (charge)/return	(6.4)	0.5	(2.7)	(8.6)
Total charge to profit on ordinary activities before taxation	(18.3)	(4.7)	(2.7)	(25.7)

The actual return on scheme assets was a gain of £100.6 million (2011: £97.9 million).

c) Amounts recognised in the statement of total recognised gains and losses

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2012				
Actual return on pension scheme assets less expected return	17.1	12.2	-	**29.3**
Experience gains and losses arising on the scheme liabilities	35.9	(2.4)	-	**33.5**
Changes in assumptions underlying the present value of the scheme liabilities	(89.0)	(42.8)	(1.5)	**(133.3)**
Changes in amounts not recognised in the balance sheet	-	20.2	-	**20.2**
Total loss recognised	**(36.0)**	**(12.8)**	**(1.5)**	**(50.3)**
2011				
Actual return on pension scheme assets less expected return	23.0	8.0	-	31.0
Experience gains and losses arising on the scheme liabilities	10.6	5.0	-	15.6
Changes in assumptions underlying the present value of the scheme liabilities	50.6	16.9	4.7	72.2
Changes in amounts not recognised in the balance sheet	-	(28.5)	-	(28.5)
Total gain recognised	84.2	1.4	4.7	90.3

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £181.3 million (2011: £131.0 million).

22. Pension commitments (continued)

d) Amounts recognised in the balance sheet

	Expected rate of return %pa	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2012					
Equities	6.3	67.5	107.8	-	**175.3**
Corporate bonds	4.6	420.0	92.6	-	**512.6**
Government bonds	3.3	414.6	77.7	-	**492.3**
Property	5.3	45.0	4.3	-	**49.3**
Alternatives	5.3	39.1	42.2	-	**81.3**
Other	0.5	18.5	7.2	-	**25.7**
Total assets		1,004.7	331.8	-	**1,336.5**
Fair value of scheme liabilities		(1,017.8)	(317.3)	(45.6)	**(1,380.7)**
Amounts not recognised (1)		-	(11.9)	-	**(11.9)**
(Deficit)/surplus in the schemes		(13.1)	2.6	(45.6)	**(56.1)**
Related deferred tax asset/(liability)		3.2	(0.6)	10.9	**13.5**
Net pension (liability)/asset		**(9.9)**	**2.0**	**(34.7)**	**(42.6)**
Comprising:					
Pension schemes with net assets		-	4.4	-	**4.4**
Pension schemes with net liabilities		(9.9)	(2.4)	(34.7)	**(47.0)**
		(9.9)	**2.0**	**(34.7)**	**(42.6)**
2011					
Equities	7.3	314.1	154.1	-	468.2
Corporate bonds	5.5	228.0	54.9	-	282.9
Government bonds	4.3	323.4	76.4	-	399.8
Property	6.3	43.8	7.2	-	51.0
Alternatives	6.3	15.1	41.5	-	56.6
Other	0.5	5.7	7.6	-	13.3
Total assets		930.1	341.7	-	1,271.8
Fair value of scheme liabilities		(974.7)	(310.0)	(44.3)	(1,329.0)
Amounts not recognised (1)		-	(26.5)	-	(26.5)
(Deficit)/surplus in the schemes		(44.6)	5.2	(44.3)	(83.7)
Related deferred tax asset/(liability)		11.6	(1.3)	11.5	21.8
Net pension (liability)/asset		(33.0)	3.9	(32.8)	(61.9)
Comprising:					
Pension schemes with net assets		-	5.8	-	5.8
Pension schemes with net liabilities		(33.0)	(1.9)	(32.8)	(67.7)
		(33.0)	3.9	(32.8)	(61.9)

(1) Amounts not recognised relate to surpluses that cannot be recovered through refunds or a reduction in future contributions, and deficits in excess of agreed liability caps.

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

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

22. Pension commitments (continued)

e) Reconciliation of fair value of scheme assets

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2012				
At 1 April 2011	930.1	341.7	-	**1,271.8**
Expected return on scheme assets	53.3	18.0	-	**71.3**
Employers' contributions	35.5	13.4	2.6	**51.5**
Members' contributions	3.6	1.4	-	**5.0**
Benefits paid	(34.9)	(7.2)	(2.6)	**(44.7)**
Bulk transfer	-	(47.7)	-	**(47.7)**
Actuarial gain	17.1	12.2	-	**29.3**
At 31 March 2012	**1,004.7**	**331.8**	**-**	**1,336.5**
2011				
At 1 April 2010	851.4	307.1	-	1,158.5
Expected return on scheme assets	49.1	17.8	-	66.9
Employers' contributions	35.7	14.3	2.6	52.6
Members' contributions	3.7	1.4	-	5.1
Benefits paid	(32.8)	(6.9)	(2.6)	(42.3)
Actuarial gain	23.0	8.0	-	31.0
At 31 March 2011	930.1	341.7	-	1,271.8

f) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2012				
At 1 April 2011	(974.7)	(310.0)	(44.3)	**(1,329.0)**
Current service cost	(10.8)	(5.1)	-	**(15.9)**
Past service cost	(0.9)	0.9	-	**-**
Gain on curtailment	43.5	-	-	**43.5**
Interest cost	(53.1)	(17.0)	(2.4)	**(72.5)**
Members' contributions	(3.6)	(1.4)	-	**(5.0)**
Benefits paid	34.9	7.2	2.6	**44.7**
Bulk transfer	-	53.3	-	**53.3**
Actuarial loss	(53.1)	(45.2)	(1.5)	**(99.8)**
At 31 March 2012	**(1,017.8)**	**(317.3)**	**(45.6)**	**(1,380.7)**
2011				
At 1 April 2010	(997.6)	(314.9)	(48.9)	(1,361.4)
Current service cost	(11.1)	(5.2)	-	(16.3)
Past service cost	(0.8)	-	-	(0.8)
Interest cost	(55.5)	(17.3)	(2.7)	(75.5)
Members' contributions	(3.7)	(1.4)	-	(5.1)
Benefits paid	32.8	6.9	2.6	42.3
Actuarial gain	61.2	21.9	4.7	87.8
At 31 March 2011	(974.7)	(310.0)	(44.3)	(1,329.0)

22. Pension commitments (continued)

g) History of schemes

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Deficit at 31 March					
Fair value of scheme assets	**1,336.5**	1,271.8	1,158.5	928.9	1,034.2
Present value of scheme liabilities	**(1,380.7)**	(1,329.0)	(1,361.4)	(1,034.6)	(1,115.9)
Amounts not recognised	**(11.9)**	(26.5)	2.0	3.6	(0.4)
Deficit in the schemes	**(56.1)**	(83.7)	(200.9)	(102.1)	(82.1)
Related deferred tax asset	**13.5**	21.8	56.3	28.6	23.0
Net pension liability	**(42.6)**	(61.9)	(144.6)	(73.5)	(59.1)
History of experience gains and losses					
Actual return on pension scheme assets less expected return	**29.3**	31.0	158.3	(182.2)	(60.6)
Experience gains and losses arising on scheme liabilities	**33.5**	15.6	(21.3)	23.1	(43.9)
Changes in assumptions underlying the present value of the scheme liabilities	**(133.3)**	72.2	(253.3)	112.1	9.6
Changes in amounts not recognised in the balance sheet	**20.2**	(28.5)	(1.6)	4.0	2.5
Amount recognised in the statement of total recognised gains and losses	**(50.3)**	90.3	(117.9)	(43.0)	(92.4)

23. Share capital

	Group and company 2012 £m	2011 £m
Allotted, issued and fully paid		
14,843,754 A ordinary no par value shares	-	-
656,246 B ordinary no par value shares	-	-
109,631,487,794 redeemable preference no par value shares	-	-
	-	-

The B ordinary shares rank pari passu in all respects with the A ordinary shares except that the holders of B ordinary shares shall not have a right to speak or vote at any general meetings or by written resolution in respect of their holdings of B ordinary shares in relation to the appointment or removal of Directors.

The holders of preference shares shall be entitled to receive any dividends resolved to be distributed pro rata to their holdings of preference shares. On a distribution of assets of the company among its members on a winding up or other return of capital (other than a redemption or purchase by the company of its own shares), the holders of the preference shares shall be entitled to receive in priority to any holder of any other class of shares, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. The preference shares are redeemable at the option of the company at a price to be determined by the Board of Directors. The preference shares do not carry any voting rights.

24. Movement in shareholders' funds

The group

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2011	-	1,096.2	(519.1)	**577.1**
Loss for the financial year	-	-	(95.9)	**(95.9)**
Actuarial loss recognised on the pension schemes	-	-	(50.3)	**(50.3)**
Current tax relating to the actuarial loss on the pension schemes	-	-	8.8	**8.8**
Deferred tax relating to the actuarial loss on the pension schemes	-	-	4.3	**4.3**
Impact of change in tax rate on deferred tax on pension schemes	-	-	0.7	**0.7**
Currency translation differences on foreign currency net investments	-	-	(0.2)	**(0.2)**
Total recognised gains and losses relating to the year	-	-	(132.6)	**(132.6)**
Dividends paid	-	-	(150.9)	**(150.9)**
At 31 March 2012	-	**1,096.2**	**(802.6)**	**293.6**

The company

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2011	-	1,096.2	115.2	**1,211.4**
Profit for the financial year	-	-	150.7	**150.7**
Dividends paid	-	-	(150.9)	**(150.9)**
At 31 March 2012	-	**1,096.2**	**115.0**	**1,211.2**

25. Capital commitments

The group
The group has a substantial long-term investment programme in Anglian Water, 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 2012.

	2012 £m	2011 £m
Contracted for but not provided in the financial statements	**220.0**	42.4

There were no capital commitments relating to the group's share of joint ventures.

The company
The company has no such commitments (2011: none).

26. Commitment under operating leases

At 31 March 2012 the group had annual commitments under non-cancellable operating leases expiring:

	2012		2011	
	Land and buildings £m	**Plant and machinery £m**	Land and buildings £m	Plant and machinery £m
Within one year	**0.3**	**0.8**	0.5	0.8
Within two and five years	**2.7**	**2.0**	1.4	1.7
After five years	**8.8**	**-**	9.9	-
	11.8	**2.8**	11.8	2.5

The company
The company has no such commitments (2011: none).

27. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also guaranteed financial obligations of joint ventures totalling £3.8 million (2011: £4.4 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary. At 31 March 2012, the group had £142.5 million (2011: £140.5 million), before discounting, of recoverable ACT recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

During the year, Ofwat issued a Statement of Objections to Anglian Water alleging that we may have infringed the Competition Act 1998 in respect of our approach to pricing supplies to a housing development at Milton Keynes. We have refuted the allegations and await Ofwat's decision on how it intends to conclude its investigation. The matter is expected to be immaterial in the context of our overall business.

There are no other material contingent liabilities at 31 March 2012 for which provision has not been made in these financial statements.

28. Ultimate parent undertaking and controlling party

Anglian Water Group Limited is 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.

29. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

During the period to 31 March 2007 the group issued £462.0 million of 10% unsecured loan notes dated 2017 to the four members of the consortium of investors owning Anglian Water Group Limited. On 26 January 2011 a Deed of Amendment extended the term of the notes to 27 May 2018 and changed the description of the notes accordingly. At 31 March 2012 the amount outstanding was £462.0 million (2011: £462.0 million). Interest of £11.2 million (2011: £11.0 million) has been accrued but not paid on these loan notes.

During the year, Anglian Water Services Financing Plc issued two ten year US dollar private placements through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited. The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 25 and 50 basis points, for these transactions, equating to a total of US$ 2,450,000.

During the year to 31 March 2012 there were no other transactions, other than £150.9 million of dividends, (2011: none other than £217.2 million of dividends) with the shareholders.

b) Transactions with Key Management

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year a return of £0.7 million (2011: £0.6 million) was earned, additionally during the previous year ended 31 March 2011, £3.5 million was invested by Key Management and the group repaid £1.4 million as part of this scheme. At 31 March 2012 £4.8 million (2011: £4.1 million) was loaned to the group by Key Management under this scheme. At the balance sheet date Key Management also held various bonds issued by the group totalling £0.4 million (2011: £0.2 million), and held £nil (2011: £0.1 million) of loan notes at LIBOR minus 0.5% dated 2012.

As part of the company's usual relocation policy to assist key employees to relocate their main family home into the region, on 28 April 2010 Anglian Water Services Limited purchased the family home of one of its directors, for £407,500. The price paid was the market value of the property at the time, as assessed by independent surveyors. At 31 March 2011 the house was being marketed for sale by the company, and was included in the consolidated financial statements within current assets at its purchase price. The house was sold by Anglian Water Services Limited during the year to 31 March 2012.

29. **Related party transactions** (continued)

c) Other related party transactions

The group's other related party transactions were all with joint ventures of the group and are summarised below:

	2012	2011
	£m	£m
Sale of goods/services	**-**	0.1
Purchase of goods/services	**-**	-

Sales to, and purchases from, joint ventures were carried out on commercial terms and conditions and at market prices.

Year-end balances arising from sales of goods/services

	2012		2011	
	Amounts owed from related parties	**Amounts owed to related parties**	Amounts owed from related parties	Amounts owed to related parties
	£m	**£m**	£m	£m
Joint ventures with AWG Property	**0.5**	**(0.5)**	0.2	(0.5)

Loans to related parties

	At 1 April	**Increase/ (decrease) during the year**	**At 31 March**
	£m	**£m**	**£m**
Year ended 31 March 2012			
Joint ventures with AWG Property	8.3	3.0	**11.3**
Year ended 31 March 2011			
Joint ventures with AWG Property	10.6	(2.3)	8.3
Amounts provided	(1.5)	1.5	-
	9.1	(0.8)	8.3

Loans to related parties were made to fund the ongoing development activities of joint venture companies.

30. Principal group companies

The principal subsidiary undertakings at 31 March 2012 are shown below. A full list of the group's subsidiaries, joint ventures and associates will be delivered to the registrar with the next annual return.

	Country of incorporation	Activities
Group and Other		
Osprey Holdco Limited [1]	England	Holding and financing company
Osprey Acquisitions Limited	England	Holding and financing company
Alpheus Environmental Limited	England	Wastewater treatment
Anglian Water (Osprey) Financing Plc	England	Financing company
AWG Parent Co Limited	England	Holding company
AWG Group Limited	England	Holding company and provision of administration services to group companies
AWG Holdings Limited	Jersey	Holding company
AWG UK Holdings Limited	England	Holding company
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies
Anglian Water		
Anglian Water Services Limited [2]	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Services Financing Plc	England	Financing company
Anglian Water Services Holdings Limited	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Morrison Facilities Services		
Morrison Plc	England	Holding company
Morrison Facilities Services Limited	Scotland	Property maintenance and repair services
Morrison Scotland (Services) Limited (formerly Maintenance and Property Care Limited)	Scotland	Property maintenance and repair services
Morrison Scotland LLP	Scotland	Property maintenance and repair services
Manchester Working Limited	England	Property maintenance and repair services
Property Services		
AWG Property Limited	Scotland	Development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

(1) This company is owned directly by Anglian Water Group Limited.
(2) Including Anglian Water Services trading as Hartlepool Water.

The group also owns a number of smaller and non-trading companies. All of the subsidiaries listed above are 100% owned by the group or the company with the exception of Morrison Scotland (Services) Limited and Morrison Scotland LLP which are 66.7% owned, Manchester Working Limited which is 80% owned and Celtic Anglian Water Limited which is 50% owned. Celtic Anglian Water Limited has been consolidated as a subsidiary undertaking as in the opinion of the Directors the group exercises control over the company.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Morrison Facilities Services Limited which principally operates in England.

All subsidiaries have a year-end of 31 March.

All subsidiary undertakings disclosed above are included within the consolidated financial statements.

Independent auditors' report to the member of Anglian Water Group Limited

We have audited the group and parent company financial statements of Anglian Water Group Limited for the year ended 31 March 2012 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Statement of Movement in Shareholders' Funds, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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 and express an opinion on 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 opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 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.

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2012 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matter
In our opinion the information given in the Directors' Report for the financial year for which 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 (Jersey) Law 1991 requires us to report to you if, in our opinion:
- proper 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
- we have not received all the information and explanations we require for our audit.

John Maitland

John Maitland
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham, England

11 July 2012