Anglian Water Group Limited
Annual report and consolidated financial statements
for the year ended 31 March 2014

(Registered under the Companies (Jersey) Law 1991)

Directors' report

for the year ended 31 March 2014

The Directors present their report and the audited consolidated financial statements of Anglian Water Group Limited for the year ended 31 March 2014.

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, sewage collection and treatment, and property development. The information that fulfils the requirement of the strategic report, including the company's financial risk management objectives, is set out on pages 5 to 40.

Group results and returns to shareholders

The profit and loss account on page 41 shows the group's results for the year. Dividends of £128.8 million (2013: £104.5 million) have been paid in the year. In addition a first interim dividend of £55.0 million in respect of the year ended 31 March 2015 was approved by the board on 23 May 2014 and was paid on 10 June 2014. This dividend has not been included as a liability at 31 March 2014.

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	Chief Executive Officer, and Managing Director, Anglian Water Services Limited	
Non-Executive Directors:		
André Bourbonnais	CPP	
Andrew Cox	3i	
Cressida Hogg CBE	3i	(resigned 31 March 2014)
Werner Kerschl	IFM	(appointed 13 May 2013)
Dr Andreas Koettering	CPP	
Manoj Mehta	IFM	(resigned 13 May 2013)
Niall Mills	CFS	
Mark Rogers	CFS	
Christian Seymour	IFM	
Dr Timothy Stone CBE	CPP	
Philip White	3i	(appointed 1 April 2014)

CPP Canada Pension Plan Investment Board
CFS Colonial First State Global Asset Management
IFM IFM Investors

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.

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 2014 are as follows:

	Number of shares 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
IFM Investors	3,065,623	-	21,683,149,948
3i	2,325,005	-	16,444,758,534
	14,843,754	656,246	109,631,487,794

Charitable donations
We continue to provide support to WaterAid – our nominated charity (that transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities). During the year, the group donated £40,000 to WaterAid. With the support of many employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £506,763 for WaterAid (2013: £393,000) – the highest amount ever raised by this committee.

Political donations
No political donations were made during the year (2013: £nil).

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 water recycling related matters.

Employees
Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. We produce a regular employee newspaper Anglian Water News, which is sent to employees at home. Phonecasts from senior managers, and the group's intranet are also widely used as sources of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. We recognise three trade unions, with whom we meet regularly for collective bargaining and consultation purposes. We have an active network of health and safety committees at which senior managers meet with trade union representatives to consult on matters affecting health and safety at work. We also operate a further elected employee forum 'Open House', where senior managers and frontline employees meet regularly to discuss the challenges facing the business and suggestions for change.

The group has a series of policies that both inform and guide all employees on the group'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 group has a whistleblowing policy and programme in all of its operations whereby employees can, in confidence, report on matters where they feel a malpractice is taking place, or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment. The group also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

To encourage employee participation in Anglian Water Group's performance, the group operates the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The group 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 Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the consolidated 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 group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law ('UK GAAP')). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors section on page 1 confirm that, to the best of their knowledge:
- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the directors' report and strategic report contained in the Annual Report include a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

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, the following applies:

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

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 believe, after due and careful enquiry, that the group and company have sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2014 financial statements.

Claire Russell
Company Secretary
10 July 2014

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

Group strategy and financial performance
The group's principal business is Anglian Water, the group's regulated water and sewerage company, which serves over six million domestic and business customers in the east of England and Hartlepool. The group also includes AWG Property, a specialist property development company.

The following pages set out a strategic report for each of the main reporting segments of the group in respect of the continuing activities at 31 March 2014.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water 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 39.

The results for the group for the year to 31 March 2014 show a profit on ordinary activities before taxation of £7.3 million (2013: loss of £57.1 million) and turnover of £1,265.5 million (2013: £1,388.6 million). The group has net debt at 31 March 2014 of £6,662.8 million (2013: £6,426.0 million). Net cash inflow from operating activities for the year was £709.1 million (2013: £664.8 million).

Dividends
Dividends of £128.8 million (2013: £104.5 million) have been paid in the year.

ANGLIAN WATER

Business overview
Anglian Water is the largest water and sewerage company in England and Wales by geographic area. We supply water and water recycling services to more than six million domestic and business customers in the east of England and Hartlepool.

Our services are at the heart of every single family and community in our region. We supply safe drinking water to 4.5 million customers in towns and villages from Grimsby in the north east of our region to Milton Keynes at its southwestern tip. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers.

Anglian Water receives approximately 910 million litres of used water per day from 2.6 million homes and businesses, including customers who receive their water from other companies. The used water 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.

Hartlepool Water is also part of Anglian Water. It provides drinking water to a population of close to 100,000 in the north east and shares our technical resources and engineering services.

The business is regulated by Ofwat — a water services regulation authority which monitors the quality of customer service and the prices we are able to charge to our customers.

We all recognise that water is vital to the success and long-term future of our planet. And as a regional company with a big vision, Love Every Drop is our strategy to bring us all together, putting water at the heart of a whole new way of living. It is our roadmap to sustainability which has driven cultural change in our business. We've set ourselves 12 goals backed up by over 100 commitments and measures to help us get it right.

Material issues affecting the business
We built our Love Every Drop approach on customers' expectations that we should support local communities to thrive, underpin economic growth and protect our environment.

Our stakeholders' opinions also helped to shape our Business Plan for 2015-20, which lays out how we intend to maintain and improve services and prepare against future challenges while keeping bills low and protecting the environment.

We carried out our most comprehensive consultation ever, Discover, Discuss, Decide. More than 4,800 customers fed directly into this consultation as part of a wider programme, which interacted with nearly 50,000 people.

To support this process and to give additional expert input into our planning a Customer Engagement Forum was established. Their role was to provide independent advice and scrutiny throughout the development of our plan. They were supported by four independent advisory panels to give specific advice on the following areas:
- Economic development;
- Environment and climate change;
- Customers and communities; and
- Hartlepool.

The positive and constructive input from the Forum and panels has been so invaluable that we have decided to make the Forum a permanent fixture so that it can continue to provide advice and challenge as we implement the plan.

Through our customer and stakeholder engagement activities we have identified a number of key issues that we believe are the most material to the business. These issues supplement the risks that we have identified internally and monitor through our risk register (see risk management section on page 11).

By focusing on these issues we believe that we will deliver an efficient, effective and sustainable business in the long-term.

Providing safe, clean and reliable water: the provision of safe, reliable, clean water is consistently rated by all customer groups as the most important thing we do. Customers also perceive removing and treating used water and good stewardship of our assets to be core responsibilities.

Drinking water quality is our highest priority. We will continue to work closely with the Drinking Water Inspectorate, health professionals, local authorities and others using the latest science and modeling to ensure excellent standards are maintained. We'll also work in partnership with land managers, farmers, the Environment Agency, supermarkets and others to reduce the impact of land-use practices on water sources.

Bills, affordability and profits: although the majority of our customers say that bills are fair, affordable and value for money, there is a significant minority of customers who are very concerned about price and worried about bills rising. Many customers are concerned that our monopoly status means that we have no incentive to keep bills fair and affordable.

To reassure customers that we are operating fairly, we'll continue to be open about how we are structured, our performance, profits and what tax we pay. We have already committed not to take the full increase in bills for 2014/15 that had been agreed with Ofwat.

We have also proposed to keep increases in average bills well below inflation between 2015 and 2020, to deliver frontier efficiencies and reduce wholesale costs.

Leakage: our customers are particularly concerned about leaks and are willing to pay for a reduction in leakage levels. We'll set ourselves our toughest ever target on leakage, aiming for no more than 172Ml/d by 2020 compared to 193Ml/d today. 172Ml/d is more than 18% below the 211Ml/d target previously agreed by Ofwat and the Environment Agency.

While most customers we asked thought this was acceptable, some felt that we still hadn't gone far enough.

We believe that 172Ml/d is an ambitious target; it is the largest reduction proposed by any water company and as far as we can practically go by 2020. But we are targeting even more savings, aspiring to reduce our leakage to less than 10% of the water we put into supply by 2040. To achieve this we will employ the latest leak-detection technology, maintaining our rapid leak repair work, extending pressure management in the water network to help prevent leaks and replace the weakest pipes most at risk of leaking.

Resilience and future challenges: there is awareness of increasing pressures on the water system, associated with housing growth and changing weather patterns, and customers want to know that we are planning ahead and working with others to address these challenges.

Our long-term goal is to ensure all customers can be supplied by more than one water treatment works. We plan to phase the spending on this to manage the impact on bills and in the next five years we'll work to protect even more customers' supplies. We'll continue to monitor and prepare for the impacts of extreme natural and man-made hazards such as flood, drought, fire or power disruptions to minimise the risk of them leading to problems for our customers. We'll invest in new pipes, onsite generators, security monitoring and flood protection for our key sites.

Protecting the environment: customers also perceive removing and treating used water and good stewardship of our assets to be core responsibilities. We will ensure we meet all of our legal obligations to protect the diverse and distinctive habitats in our region, including coastal and river waters.

Our Keep it Clear campaign has seen sewer blockages, which can cause pollution incidents, fall by an average of 48% in the areas targeted. This reduction is largely thanks to customers who are now recycling fats, oils and grease and disposing of unflushable items, such as wipes and sanitary waste, in the bin rather than down the toilet. This simple behaviour change has led to a reduction in repeat call-outs to unblock sewer pipes.

We'll also work closely with others such as local authorities and developers to increase storage and use more sustainable solutions to reduce the amount of rainwater entering our sewers.

Business model

Our business is the water cycle

At its most basic, our business is founded on water and on the water cycle, of which our operation is part. Our raw material is the water we take from rivers and underground aquifers and store in our reservoirs.

That water is treated and supplied to homes, businesses and industry. It is then returned to us through our sewer network before being cleaned and returned to the rivers and sea. A little delayed and diverted, but still on the same age-old, circular journey.

The sewage that arrives at our water recycling centres is itself a raw material we can turn into renewable energy and biosolids for agriculture, helping to address society's growing demand for food and power as well as water.

In this way and starting with the most basic and most vital of natural resources, our business underpins the health and wellbeing of our customers, supports growth and prosperity in our region and helps future-proof it against the challenges of climate change and a growing population. It is also how we will deliver the outcomes for customers and the environment that form our Business Plan.

Managing resources wisely

Water is a finite resource and our priority is to make the most of what we have. We put the same amount of water into supply today as we did at privatisation in 1989, although the population we serve has grown more than 20% since then.

This has been achieved by:
- Moving water around the region to where it is needed most.
- A successful metering campaign: 87% of households will have a meter fitted by 2015 and 79% of customers will pay a measured charge.
- Reducing leakage: over the last two years we will have reinvested £30 million of capital and operating cost efficiencies to reduce our leakage to its lowest ever level. We have the lowest level of leakage of any of the large, combined water and sewerage companies (WASCs).
- Encouraging and supporting our customers to become more water efficient.

In the next five years we will continue to build on this industry leading position by:
- Increasing the number of households with a meter fitted to 95%, and the number of customers paying a measured charge to 88% by 2020.
- Working to drive down leakage to 172Ml/d by 2020 in response to our customers' concerns.
- Extending our water efficiency campaigns.

As well as focusing on reducing demand, we will also plan for increased water resources for the longer term.

Adding value and managing external pressures

We have an integrated strategy to build the resilience of our business and to help secure our future. This involves mitigating foreseeable risks, and building flexibility into our systems and processes to protect against unforeseen events. We plan to invest to improve the interconnectivity of our water supply system, to improve the resilience of our water treatment works against power shortages and disruptions, and to increase the resilience of our assets against flooding.

The severe drought in 2010-2012 highlighted a number of vulnerabilities in our supply system. If there had been a third dry winter it could have led to restrictions in water use, such as reductions in water pressure, or the introduction of rota-cuts.

Our customer engagement showed such severe water restrictions are one of the most unwanted of all service failures. Customers are willing to pay to avoid these measures and don’t expect to experience any of them in their lifetime. We are already improving the resilience of our supply system to drought, for example, by reducing leakage and promoting water efficiency through a range of innovative, evidence-based campaigns.

Supporting growth in the region and protecting the environment
The east of England is one of the two fastest-growing regions in the country and is playing a key role in the recovery of the UK economy.

One of our independent panels for the development of our PR14 business plan - the Economic Development Panel - supports our view that we have a fundamental role to play in underpinning economic prosperity across the region by supporting growth and in helping to make this an attractive place to live and work.

Our challenge is to invest at the right level and at the right time to ensure we can meet the demand of all domestic and business customers. However, growth has been slower than expected in recent years due to the economic downturn, so we need to match spending with actual need.

We take our legal obligations to protect and enhance the environment very seriously, but need to make sure any investment results in real improvements to the environment before asking customers to pay more. We have been working closely with the Environment Agency to make sure any investment is based on robust evidence.

Integrated in our water and water recycling plans is our catchment management strategy, which addresses a range of water quality issues, including the impact of pesticides and fertilisers. Our team of catchment officers continues to work at a local level to ensure best practice is understood and implemented. In addition, we will work at a regional and national level, in collaboration with the National Farmers Union, Country Land and the Business Association, Environment Agency, landowners and others to encourage and support the adoption of sustainable practices.

Catchment management solutions to deal with high nitrate levels are very expensive and, as it can take more than 40 years for nitrate to work its way through groundwater systems, are ineffective in the short to medium-term. We are proposing to study a small number of catchments that feed major reservoirs and rivers used for public water supply. This will focus on achieving the right approach for the large arable catchments common in East Anglia. It will also test the appetite of customers for various options available to change behaviours.

Our strategy

Our ambition is to be one of the UK’s leading customer service businesses. This can only be achieved by keeping the trust and confidence of our customers. Our Discover, Discuss, Decide customer consultation was vital in putting together a plan that will meet those aims for the next five years and beyond.

2015-2020 Business Plan
Our customers have told us that they expect a safe, clean water supply and a reliable service to recycle their used water back into the environment. They want fair and affordable bills, reduced leakage and the knowledge that future water supplies are secure against the effects of growth and climate change.

We have set out to create a balanced and affordable plan that meets these requests. We understand the need for efficiency and affordability and through our plan we aim to:

- continue our high levels of service and enhance them in the areas highlighted through our consultation;
- keep increases in average bills well below inflation between 2015-2020; and
- deliver frontier efficiencies and reduce wholesale costs.

The plan will achieve 10 key outcomes that together make up a future vision for the communities we serve. We believe the plan we have developed with our customers is a fair and sustainable one. More than 90% of customers we surveyed gave their approval to our draft plan, and that was before we went even further, with an even greater reduction in bill rises.

Long-term sustainability is our business strategy
We want to put water at the heart of a whole new way of living.

To do that we strongly believe sustainability must be our business plan, not separate from it. The strategic approach to achieving this is rooted in our 25-year Strategic Direction Statement and the long-term view this took of the particular challenges that we face in here in the east of England – climate change and growth. Since launching Love Every Drop in 2010, we have learned our chances of success are much greater if we forget traditional and incremental ways of improving our business and set aspirational goals instead.

Having agreed our outcomes, we re-examined the business goals that mark the way on that journey. We examined each goal in turn to ensure they were relevant, aspirational and drove us towards our outcomes. As a result some goals remain unchanged but in other areas we have raised the bar.

Stretching our aspirations
Five goals remain fundamentally unchanged; no accidents, no incidents, no pollutions, 100% of our customers very satisfied with our service and zero waste, get it right first time, every time. We have stretched our aspirations for the remaining five.

- To deliver a 70% reduction in capital (embodied) carbon by 2030 from a 2010 baseline
- To exceed a 7% reduction in real terms in gross operational carbon by 2020 from a 2015 baseline

We needed to update our carbon goals in line with the timelines for the new Business Plan and beyond.

With carbon a good proxy for energy, material use and cost, this leading approach brings clear business efficiency, environmental and customer benefits.

- Lead and champion the effective management of the impact of growth and climate change

As our raw material, water, and our ability to provide our services are so closely linked to the impacts of climate change, we have taken a role as standard bearer for this issue and so we have now reflected this in our goal.

- Frontier performer in the UK

To match our aspiration to be a leading customer service business in the UK, we have raised the level of ambition for our frontier performer goal from industry to UK.

- Employer of choice

To achieve our goals in customer service and as the frontier performer in the UK, we need the best employees and so we have changed our goal from being a leading employer in our region to employer of choice.

New goals
To ensure that our business goals lead us to our outcomes, we have created two new goals around the environment and communities.

- Pioneer responsible water stewardship

We will do this by a 21st century approach to water resource management, working with land managers on catchment management and measuring and managing embodied water.

- Make a positive difference to the communities we serve

Responding to our customers' wish for a more comprehensive water education programme, developing our employee volunteering programme and enabling more customers to make positive behavioural changes in water efficiency and Keep it Clear activities.

Our culture
We recognise the stretching nature of these business goals and outcomes but we also know there is the potential to achieve even more.

Our approach is that in any business situation we can innovate and collaborate to transform the end result. These are the three pillars of our culture and will be key to our long-term success.

Innovation – setting ourselves, partners and suppliers tough goals to force step changes, being open to new ideas, innovative thinking and operating more sustainably.

Collaboration – working with leaders from across the public and private sectors, young people and community groups, to inspire them to take positive steps towards achieving our vision of a sustainable future.

Transformation – transforming the way we work with customers, partners and suppliers, focusing on outcomes, to reshape how society values and uses water.

Risk management
Effective risk management is central to the achievement of our strategic priorities. It is managed 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 identified 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 embedded within our business operations; and to establish clear ownership and accountability for each of the risks.

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

Here, we give an overview of our risk management priorities, outline our approach to mitigation and adaptation, and point to sources of more detailed information. In addition we test the controls put in place are adequate and appropriate for the risk identified. There is more detail on our key long-term challenges in our Strategic Direction Statement.

Climate change and flooding
Description
Climate change is a major challenge to our business that can impact our assets and service to our customers. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, and our low lying region makes us particularly vulnerable to localised flooding. In the last year we saw a hot July place extra demand on our water resources, the biggest east coast tidal surge for 50 years

and the wettest winter since records began. Although specific events cannot be attributed to climate change, they clearly demonstrate how vital it is that we manage severe weather, both today and in the future.

Mitigation
Our senior level Climate Change Steering Group assesses the implications for our business and has visibility of the delivery of our mitigation and adaptation strategies. Climate Change scenarios are being integrated into the decisions about future investment and our integrated flood risk management strategy identified investment at 35 sites for AMP6 including investment to protect us against further flood risk due to predicted climate change impact. This is in addition to the £40 million that we're investing at 20 water treatment works in this AMP period.

Financing our business
Description
We are funding a capital programme of more than £2 billion (gross sums assumed by Ofwat, in 2007/08 prices, before deducting grants and contributions) in AMP5 and have a gross debt of £6.2 billion to manage and service. It is 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, with equity (shares) making up the balance of our regulatory capital value. Net debt accounts for approximately 79.6% of our regulatory capital value as at 31 March 2014. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average, producing 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 cash facilities and having a diverse debt portfolio in terms of source and maturity.

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, the impacts of a growing population remain a key area of focus for the business. We expect that planned developments will increase in number 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 most cost-effective combination of new water resources, network enhancements, and demand management measures to meet this challenge. 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.

Water sector reform and other legislation
Description
The Water Bill received Royal Assent in May 2014. This new legislation extends competition to enable all business customers to be able to choose their retail supplier from April 2017. The Act also makes provision for further upstream reforms. To support and facilitate the new retail market and to enable Ofwat to set more effective incentives for different parts of the value chain, Ofwat is setting separate price controls for retail and wholesale activities for 2015-20. Final determinations are due December 2014.

We also need to keep abreast of the huge amount of other legislation passed each year and ensure we comply with existing laws. We have recently implemented a legal register to ensure this is done.

Mitigation
In order to deliver an effective retail market, Defra and Ofwat have created the Open Water Programme. To support the design and development we have been extensively and actively involved at all levels, including the High Level Group which is providing the direction for the Programme. We have also established a Market Reform Programme to effectively manage the transition within the business as we move into a fully competitive retail market.

We carefully manage compliance with current legislation (eg Competition Act 1998) and continue to monitor all forthcoming legislation as well as the extension of competition under the new Act.

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 2.7% 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.

Energy and carbon management
Description
We are one of the largest users of electricity in the east of England, owing to the power we need to treat and recycle water, and pump it around such a geographically flat region. Energy – in the form of electricity, gas and fuel oils – represents 12% of our total operating costs and accounts for the vast majority of our carbon footprint. Hence, our strategy is to measure, manage and reduce the associated cost and carbon impact. Being such a large user of energy also requires us to maintain and improve the resilience of our energy supplies.

Mitigation
We mitigate our exposure to price movements in wholesale energy markets using a programme of forward hedges with our energy supplier and financial counterparties. Over the last few years, we have progressively secured 100% of our wholesale electricity costs for AMP5 and have purchased a proportion of our requirement for AMP6.

We also have a continuous programme to reduce energy consumption, with a focus on the energy efficiency of new investments, and on more energy-efficient ways to operate our current sites. We continue to invest in back-up power supplies and renewable energy. Not only does this protect us against supply problems and volatile costs, but it also reduces our carbon footprint.

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 four years of AMP5, and will continue to drive out costs for the remainder of the AMP and beyond.

Mitigation
Examples of efficiency projects we have implemented during the first four 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;
- refining our procurement and sourcing strategy;
- encouraging business units to implement smaller, locally driven initiatives;
- carrying out rigorous root cause analysis early on in our capital delivery process to ensure we provide the right whole-life cost solutions;
- focusing on both cost and carbon, and the relationship between them, to find innovative ways of providing sustainable solutions;
- developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site; and
- improve the operability of what we deliver by having clear and agreed deliverables.

Our efficiency in delivery has been essential to mitigate the impact of additional costs that have been incurred in the form of the Carbon Reduction Commitment and the transfer of private sewers, totalling more than £10 million per annum, none of which were included in prices when the AMP5 determination was made. In capital delivery, this has enabled us to further invest in the resilience of our service and the serviceability of our assets.

Pollutions
Description
Leaks, spills and escapes from our network have the potential to cause pollution, damaging or endangering the natural environment. Such incidents are classified by the Environment Agency and, depending on their severity, can lead to prosecutions and financial penalties.

While such events are rare, their potential to cause environmental harm, reputational damage to the company and the fines they attract, make them a significant risk.

Mitigation
Anglian Water has set a goal of no pollutions. All incidents, the associated response, mitigation and preventative actions are reported to and monitored by senior management. We have a wide programme of activity to reduce pollution incidents and improve our understanding of their causes.

This includes:
- Spending of around £7 million per annum in planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority, 'blue light' response for areas with historic pollution risk and/or significant environmental sensitivity.
- Investment in new technology for remote monitoring of discharges. These have been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock.
- We continue to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide one-stop-shop for pollution information.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Blockages are responsible for the majority of pollutions. A fats, oils, grease (FOG) and unflushables campaign aimed at changing customer behaviours continues to drive down blockages, resulting in an average 48% less blockages in the areas targeted so far.
- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

Operating environment

We know that to build a sustainable business we have to be actively engaged with our stakeholders from the economic, society and the environmental sectors. We have developed long-term, constructive partnerships with many organisations across our market place.

Economy - We work closely with Ofwat, our economic regulator. They determine the price we set for our customer bills. Water is crucial to the economic success of our region and so we are developing ever closer working relationships with the Local Enterprise Partnerships, local authorities and the agriculture and food sectors in our region.

Environment – 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, while the Drinking Water Inspectorate (DWI) ensures the quality of water we supply to our customers. The Environment Agency has been closely involved in the development of our recent Water Resource Management Plan and in the thought leadership work on 21st century water supply through the Cambridge Programme for Sustainability Leadership.

Society – Our six million customers, our own employees and those indirectly employed through our supply chain are our key stakeholders, but more than 125,000 business customers also rely on our services. We believe our role in the community goes beyond even these and we have an education and events programme that has seen more than 27,000 people this year. It is also why we have seconded a senior manager to work in the community as a Rural Business Connector, through Business in the Community.

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 services and maintenance of the water and/or water recycling networks within its area of appointment. To qualify for an inset appointment the site must be a single premises using more than 50 million litres of water a year, or be a 'greenfield' site that does not have an existing connection to the network. Alternatively, insets may be by agreement. We have operated inset appointments for many years and supply customers outside our historic statutory area at six sites, including our most recent appointment in July 2013 at Woods Meadow in Oulton. Within our operating area there are eight sites served by other companies.

Water supply licensing allows customers who use over five million litres of water a year to choose their water supplier, who in turn purchases the water in bulk from the incumbent water company. These arrangements do not include water recycling services.

The Water Act extends competition in the non-household retail market. From 1 April 2017, all non-household customers will be able to choose their water and/or water recycling retailer. The Act also makes provisions to allow for further upstream reforms. In order to deliver an effective market, Defra and Ofwat have created the Open Water Programme. By bringing together experienced water industry representatives and through a number of consultations the programme aims to create the necessary industry systems and codes required for a fully functioning competitive market. Anglian Water is actively engaged and represented on a number of working groups, including the High Level Group which is providing the direction for the Programme. Leading up to market opening in 2017, there will be a lot of activity within Anglian Water and we have established a Market Reform Programme to effectively manage this transition.

In our draft plan for 2015 -20 we proposed to keep average bills flat before inflation, while investing to maintain and improve services, meeting our legal obligations and tackling future challenges. We tested the acceptability of our draft plan with our customers and over 90% of those surveyed said that they found the plan acceptable. Of those who did not, most told us we would need to reduce bills further. Our final submission in December proposed a bigger reduction in average bills to address this. Following feedback and new guidance from Ofwat, we've made further refinements to our plan leading to even lower average bills. We've continued to discuss our proposals with customers and the Customer Engagement Forum and remain confident our plan delivers the right outcomes for our customers and the environment whilst balancing our financial needs.

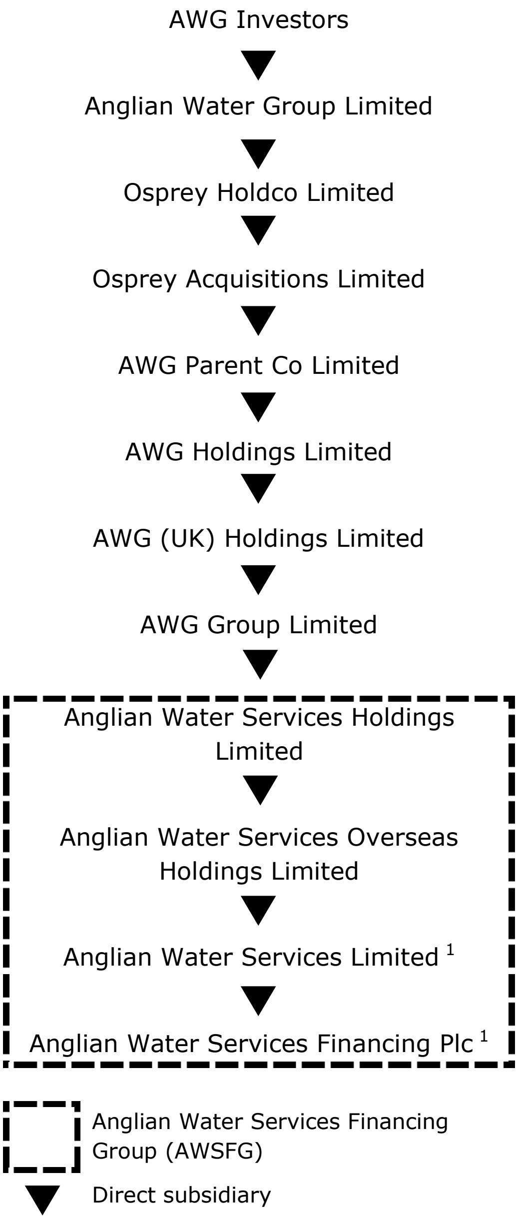
Leadership and governance

How we are managed

The Anglian Water Services Limited Board of Directors consists of the Chairman, Sir Adrian Montague CBE; four Executive Directors, Peter Simpson, Scott Longhurst, Chris Newsome and Jean Spencer; four independent Non-Executive Directors, Robert Napier CBE, Christopher Garnett OBE, John Watkinson and Paul Whittaker; and four Non-Executive Directors, Andrew Cox, Andreas Köttering, Niall Mills and Christian Seymour.

The four Anglian Water Services Executive Directors also sit on the Anglian Water Services management board. The management board oversees the day-to-day running of the business and develops long-term strategies for approval by the Board of Directors.

Our corporate structure



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

Anglian Water Services Holdings Limited was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies (referred to as the Anglian Water Services Financing Group, or AWSFG) protects customers and our bond holders from risk associated with other, non-regulated Anglian Water Group companies outside of the ring-fence. This makes us an attractive investment prospect for bond holders, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills.

Anglian Water Services Overseas Holdings Limited is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. It was set up as a Cayman Islands registered company to facilitate the ring-fenced structure in 2002, but changes to UK legislation over the last few years mean we wouldn't need to set up an overseas company if we were to do the same again. Despite being registered overseas, this company is UK tax resident, and therefore does not (and never has) benefited from any tax advantage.

Anglian Water Services Limited is the regulated entity that trades as Anglian Water, managing our water and wastewater network, serving over six million customers. It's the part of the business that most people think of as 'Anglian Water'. Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a Plc company to raise debt in the UK public bond market. Funds raised by this company underpin our investment in the region's water and water recycling services.

Key performance indicators (KPIs)

Anglian Water's key performance indicators for the year to 31 March 2014 are provided below.

Measure	How we define it	How it relates to our strategy	Our performance	Our 2013/14 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.	2013: 99.96% 2012: 99.96% 2011: 99.96% 2010: 99.96% 2009: 99.96% 2008: 99.98%	Our drinking water quality continues to be excellent. In 2013 we launched a new Keep Water Healthy campaign.
Leakage (2)	Cubic metres of water lost per kilometre of main per day (m^3/km/day).	Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.	2013/14: 5.06 2012/13: 4.97 2011/12: 5.26 2010/11: 6.10 2009/10: 5.62 2008/09: 5.60 Industry average 2012/13: 8.66	Leakage at its second lowest ever level, with performance 9% better than our Ofwat target. This reflects our continued commitment to securing supplies to our customers and protecting the environment.
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.	2013/14: 87 2012/13: 85 2011/12: 79 2010/11: 61	Our combined score is out of a possible 100. This has improved by 26 points from 2010/11. For the second year in a row we have been rated the best in the industry for customer service.
Environmental				
Carbon footprint	CO_2 emissions equivalent in tonnes CO_2e.	This key measure helps us: • Manage our environmental impact. • Deliver cost savings.	2013/14: 442,470 2012/13: 469,551 2011/12: 462,549 2010/11: 489,437 2009/10: 485,930	We aim to reduce our gross operational carbon emissions by 10% in real terms by 2015 from a 2010 baseline. Our gross operational carbon emissions have decreased by 9% in 2013/14 in comparison to the 2009/10 baseline. Note, the baseline has been recalculated in accordance with updated government guidance released in 2013.
Financial				
Capital expenditure £ million (3)	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.	Four years to 31 March 2014 Determination: 1,951 Actual: 1,705	Delivering our regulatory outputs, plus the extra requirements for private sewers, but with lower spend than assumed in the Final Determination due to: • higher efficiencies; • reduced demand for new connections; and • some growth expenditure being deferred until the final year of the AMP.

Key performance indicators (continued)

Measure	How we define it	How it relates to our strategy	Our performance	Our 2013/14 performance in context
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 2013/14: 464.6 Actual 2013/14: 451.2 2012/13: 445.8 2011/12: 433.0 2010/11: 396.5 2009/10: 386.1 2008/09: 363.5	Below inflation increase of 1.2% over 2012/13 due to targeted efficiencies, a rates rebate and one-off savings that partially offset inflationary pressures across the business. Despite the additional costs of the Carbon Reduction Commitment and private sewers transfer we have outperformed the Final Determination this year.
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.	2013/14: 0.21 2012/13: 0.16 2011/12: 0.28 2010/11: 0.31 2009/10: 0.37 2008/09: 0.39	Although our AFR has risen slightly this year our health and safety performance has been recognised by the royal Society for the Prevention of Accidents (RoSPA) for the tenth consecutive year. This year we were also awarded a Highly Commended, placing our performance among the very best in the industry. Health and safety continues to be a priority.
Accident severity rate	The number of Category 1 accidents/incidents expressed as a percentage of all accidents/incidents.	Measures severity of accidents/incidents.	2013/14: 0.2% 2012/13: 0.2% 2011/12: 0.3% 2010/11: 1.1% 2009/10: 3.4% 2008/09: 5.7%	We have previously used the Health & Safety Executive's (HSE) CHaSPI metric in our KPIs. The HSE has stopped using CHaSPI, so we have replaced it with our Accident Severity Rate indicator, where all accidents/incidents are categorised. Category 1 accidents/incidents (most serious) are those that resulted or could have resulted in death, major or multiple fractures, amputation or permanent disability.

(1) Drinking water results published in 2014 for the 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. 2013/14 result subject to formal confirmation from Ofwat in autumn 2014.
(3) Final Determination Capex on a gross, Pre-capital Incentive Scheme adjustment basis, in 2013/14 prices.
(4) For the appointed and non-appointed businesses. Final Determination adjusted to 2013/14 prices and for non-appointed business and pension deficit payments to ensure consistency.

Delivering our strategic priorities

Your service

Customers are at the heart of what we do. Our Business Plan for 2015-20 is built on the views of the thousands of customers who took part in our biggest ever customer engagement programme, including the Discover, Discuss, Decide consultation.

We want all our customers to be very satisfied with the service they get from us and to see the bills they pay for it as fair, affordable and good value for money. We have a responsibility to achieve excellence in everything we do, because our customers depend on us to supply an essential service.

Our business supplies clean, safe water to millions of people. We are constantly working to keep the quality of that water world class and to give excellent customer service. We also take and treat the water returned through our sewers, protecting the health of our customers and the environment. Keeping our huge network of sewers, pumps and Water Recycling Centres working well is also an essential part of the service we provide.

Given their central importance to the life of our region, it is vital that all our services remain reliable, now and in the future. We are working hard to ensure they are resilient to natural and man-made hazards, including increasingly severe weather, and can stand up to the likely impacts of a changing climate.

Satisfied customers

Our customers have rated their satisfaction with our service as the best in the industry for the second year running, as measured by Ofwat's independent qualitative customer satisfaction survey. We have also secured the top spot over the three-year period 2011-2014, showing we are consistently delivering a great service for our customers.

Our contact centres, all UK-based, together with our back office operations, continue to focus on friendly and professional service. Response times are better aligned to customer expectations than they have ever been. Customer satisfaction levels in relation to our contact centres remains high, with more than 98% of customers satisfied or better.

Our own 'Voice of the Customer' team has spoken to more than 40,000 customers this year, gaining valuable insight and measuring our customers' satisfaction. This information is vital in helping us to change and improve our service. According to this survey, some 88% of customers who called our billing contact centres told us that they were very satisfied, with less than 1% expressing any dissatisfaction. Across the business our own research recorded that more than 97% of customers who spoke to our team said they were satisfied or better with our service. This moves us ever closer to our ambitious goal of 100% of our customers being very satisfied with our service.

For the third year in a row we have also seen a reduction in the number of complaints we've received, down more than 15% on the 2012/13 year. Following further customer service training for staff, we have also seen a big improvement in the number of complaints resolved first time. This rose to more than 98%, up from 90% in 2010/11.

During the year we carried out a detailed market research project to better understand what our customers wanted from their bills. Bills have been redesigned as a result, with more changes planned over the next year to better match customer requirements.

A new call centre telephony platform has been introduced, which offers customers the option to receive a call back from us if they contact us during a particularly busy period. We also now do more than we ever have to let customers know if we think their service is likely to be affected by a service outage.

To reinforce our commitment to excellence in customer service, we have begun our journey to gain accreditation by the Institute of Customer Service, ServiceMark. This is a national standard which recognises an organisation's commitment to, and achievement in, customer service.

Innovation remains a driving force in our pursuit of excellence in customer service. For instance, we have significantly developed the service we offer our customers on our social media platforms over the last year, and, at certain times, we now offer a live online chat facility for customers. Effective use of social media is now 'business as usual', and offers our customers choice in how they communicate with us.

Fair charges

We recognise that many customers are worried about the economy and feeling the pressure on household budgets. Although most say bills are fair, affordable and value for money, a significant minority are concerned about price and worried about bills rising.

We are doing what we can to keep our bills affordable for everyone and have decided not to increase charges in 2014/15 in line with the full regulatory settlement. This means that customers will see below inflation increases to average household bills.

Around 45,000 of our household customers are already supported by the Government's WaterSure scheme, and our own AquaCare Plus tariff. During the year, we have also developed proposals to introduce a new social tariff from 1 April, 2015. Customers would be assessed by an independent advisory agency, with those needing extra help being offered a discounted tariff. We will shortly be completing a customer consultation process to confirm support for our proposals.

Meters remain the fairest way to charge for water because customers only pay for what they use. For this reason, having a meter also encourages water saving. On average, customers with a meter save £100 a year and use 10-15% less water. We have consistently looked to increase the number of customers who are metered, without making it compulsory. Customers have told us they do not want us to force people to switch to a meter.

More than 20,000 customers chose to have a meter fitted during 2013/14, and we also fitted another 29,500 under our enhanced metering programme. This is where we install meters at customers' properties, provide advice on potential savings and leave it for them to decide whether to switch. We also replaced 120,000 meters this year to make sure customers continue to get fair and accurate bills.

We have the highest level of metered customers among the major water and sewerage companies in the UK, with almost 78% paying a metered bill. We are committed to maintaining and fitting more next year, together with offering help and advice on how to save water and money.

During 2013/14, we continued our focus on water efficiency, installing water-saving gadgets in more than 13,000 homes as part of our Bits & Bobs programme. We have visited more than 76,000 homes over the last four years, saving households 46 litres a day, on average. We get excellent feedback from customers who really appreciate the savings on their water and energy bills.

Working with the Royal Horticultural Society, our award winning Potting Shed campaign continued to promote water saving tips for the garden. At the same time, we have continued to offer garden kits, containing water saving crystals and mats for garden tubs and pots and advice on creating a beautiful garden whilst conserving water.

Safe, clean water

The delivery of safe, clean, high-quality drinking water is central to what we do. It underpins the public health of our region and is a fundamental expectation of customers.

We measure the quality of our drinking water, carrying out more than a third of a million tests every year. For the third year running, our overall compliance was 99.96%. We also improved our performance in other areas where we are measured by the Drinking Water Inspectorate, with exceptional water quality in our storage points and in our network of water mains.

2013/14 also marks our third consecutive year without any drinking water quality incidents (events classified as 'serious' or 'major' by the Drinking Water Inspectorate).

We are continually investing to maintain and improve water quality. This year saw work continue on a new, state-of-the-art water treatment works in Newton-on-Trent, built to supply the growing city of Lincoln. We expect this £45 million scheme to come into supply in the second half of 2014.

During the next five years we will carry out work to prevent decline in water quality from nitrates, pesticides and nickel, continue with our strategy to reduce lead in drinking water and protect water quality in buildings.

We are also continuing our catchment management work, working with farmers, the Environment Agency and local groups to protect water quality in rivers and underground aquifers.

Our newest drinking water campaign, Keep Water Healthy, launched in 2013. While the water we provide is treated, cleaned and disinfected to meet the highest standards, there are many potential issues in people's homes which can compromise quality.

Keep Water Healthy looks to raise awareness of things customers may unwittingly do which can make their water look or taste unusual, or even make it unsafe. The main aim is to prevent plumbing problems in the home that can cause water quality issues. Materials produced include leaflets, interactive web pages, and six information videos on our website and YouTube. Anglian Water's Facebook page has also played a significant role in getting the campaign messages to customers. The next step is to target small businesses like cafes, dentists, vets and offices.

Work to replace lead 'communication pipes' that join our network to customers' pipes has been completed in Ipswich and Northampton and is well underway in Bedford and Kettering and Peterborough. Last year we replaced 2,449 lead pipes and are on track to hit our cumulative five-year target of 11,299 by March 2015.

This year the legal limit for lead in drinking water fell from 25μg to 10μg (micrograms per litre). We have been working to this new limit for many years, replacing our pipework wherever samples show levels above this value. We have set up a free advice line and last year carried out 554 free lead tests at customers' taps. This was on top of 8,862 other customer tap samples also analysed for lead. In total, we investigated 216 lead sample failures, helping customers find the source of the lead in their property.

We have been working with the NHS to reach pregnant woman and young children, who are our most vulnerable customers. The logo of our partner NHS authorities is included on our lead advice leaflet, which is given out by local health workers and midwives. Posters, banners and leaflets have also been displayed in GP surgeries.

In December our lead advice video debuted on 'BabyTV', which is shown in the antenatal clinics of Norfolk and Norwich hospitals. This will reach over 6,000 parents with up to 30,000 visits per year.

We have also been working with local authorities, especially in our higher priority areas such as Grimsby, Bedford and Norwich, to replace old lead pipes and identify lead in public buildings.

Encouraging the use of approved plumbers remains a key objective to reduce the number of incidences of poor quality plumbing affecting water quality. Anglian Water is a founder member of the national WaterSafe scheme for approved plumbers, which officially launched this year. The scheme brings together plumbers from the seven existing Approved Contractors' Schemes across the UK on a free database.

Resilient services

We have to make sure we can provide reliable services to our customers now and in the future. That means working to adapt to a changing climate, mitigating against foreseeable risks such as severe weather, preparing and exercising emergency plans and working in partnership with others. It also means improving the day-to-day running of our network of water and sewer pipes, keeping them flowing, reducing leaks and improving efficiency.

In February 2014 we were recertified to ISO 22301 (Business Continuity). We were one of the first companies to achieve this international standard, which assures our customers and key stakeholders that we can keep our business running during, and following, any disruption.

The impact of a changing climate remains one of the most significant risks that we face. At the end of 2013, we published our Climate Change Adaptation Plan. Based on a risk analysis of climate change impacts we have identified the key steps we need to take to adapt our business. This includes embedding adaptation in decision making, identifying and filling gaps in knowledge and engaging internally, in the region, and beyond. Our plan is aligned with the National Adaptation Programme, contributing to a country-wide effort to cope with climate change.

We also recognise the value of working in partnership to protect our business and our customers. Anglian Water employees sit on 13 Local Resilience Forums (LRFs), and the Multi-Agency Support Group (MASG) for the East of England, which bring together organisations with a role in helping the region cope in times of emergency. During 2013/14, we took part in several multi-agency events, exercising our joint response to East Coast flooding, national power outages, major pollution to bathing waters, and community resilience. This close working, particularly with UK Power Networks, paid off several times during the year's extremes of weather, and especially during October's high winds, and in December when our region was hit by the highest coastal surge for 50 years.

As the surge approached, our planning and preparation meant we were able to see which of our sites were at risk, keep people informed and take steps to protect vital equipment. Our links with the Environment Agency and the Met Office meant we had accurate, up-to-date information as events unfolded. Representatives were sent to multi-agency response groups, ensuring we worked closely with our partners throughout.

The surge hit 38 of our water recycling assets along the North Norfolk coast, in Boston and on the South Humber Bank. The flooding caused significant electrical damage. Working closely with the power companies we got most sites up and running within a week, avoiding any significant disruption for our customers over Christmas and the New Year.

The tidal surge was followed by heavy rain in January, which caused widespread flooding in southern England. The effects of climate change and a growing population are likely to further increase the risk of flooding, both in our region and across the country. This year, we have continued to invest in flood protection measures at 20 water treatment sites.

During 2015-2020, we plan to invest in defences to protect against surface water, river and coastal flooding at more high risk water treatment and water recycling sites where the customer and cost benefit are highest.

Provided our plans are approved by our regulator, measures would include building flood walls, flood-proofing buildings and raising vital equipment above the level of any potential flood. This would cut flood risk at 12 water and 23 water recycling sites, which together serve 800,000 customers.

Our Keep it Clear programme continues to have a significant impact on the number of blockages we are called to deal with on our 76,000km network of sewers and pumping stations. Launched in 2010, the campaign aims to change the way people dispose of fats, oils, grease and other unflushables. We set a target to halve the number of avoidable blockages by 2015 from 2010 levels, and we are on track to meet that target. An average reduction in blockages of 48% has been achieved in the 15 areas targeted so far, and we are scheduled to take the campaign to 10 new locations during 2014/15.

In December 2013, our Keep it Clear Programme Manager became chair of Water UK's Sewer Network Abuse Prevention Group. Talks are now underway with manufacturers and retailers to raise the problems wipes and sanitary products can cause, and to develop a joint customer awareness campaign in response.

We also remain focused on reducing the number of bursts that we have to deal with on our water supply network. Not only is this what customers have told us they want, but it also protects our water resources and lets us spend more time on maintenance. This year we have been running 25 schemes as part of our Optimised Water Networks (OWN) strategy. This aims to improve how we control and monitor our network, reducing problems through better control of pressure in our pipes.

Priority has been given to areas where we can get the most benefit in reducing bursts, interruptions to customers' supply and lower leakage levels. In these areas we have reduced burst mains by an average of 40% and reduced the amount of leakage by 35% or 5.85 megalitres a day (Ml/d). At the same time we have serviced or replaced 487 existing pressure reducing valves, resulting in 21.5% fewer burst mains in areas where this work has taken place.

We plan to expand the scale and scope of the programme in AMP6 and are already working with suppliers and others in the business on new and innovative solutions. Our largest optimisation scheme to date, covering 55,000 properties in Peterborough, is already underway.

High fuel prices in 2012/13 coincided with an increase in diesel theft from Anglian Water sites, with approximately 150,000 litres stolen from our water treatment and water recycling centres between April 2012 and September 2013. In response, we installed new anti-theft equipment at 50 sites across the region. As of the end of February, there had been a 68% drop in diesel being stolen.

This year marked the launch of a joint programme with the Carbon Trust to promote the Carbon Trust Water Standard to our business and public sector customers. Anglian Water has become the first water company to achieve the Standard, which certifies organisations that measure, manage and reduce water use year on year. Anglian Water Business has been training its staff to become assessors for customers who are working towards the Standard.

Anglian Water Business fully supports the planned introduction of retail competition for business customers in 2017 and has been actively stimulating the debate around what customers expect.

In April 2013, we rebranded Osprey Water, our Scottish retail arm, which had been serving business customers in Scotland since market opening five years ago to Anglian Water Business. It is now the one-stop shop for business customers on both sides of the border. The national brand brings together Osprey's experience of winning business in a competitive market place with Anglian Water's decades of expertise in helping businesses save water, energy and money.

September saw us at the UK's first dedicated water efficiency and management exhibition for businesses, the Water Event, held at the Birmingham NEC. That month we also took part in a panel discussion on what the Water Bill will deliver for the consumer at Labour and Conservative Party Conference fringe meetings.

In November, Anglian Water Business brought together leaders from the water industry, regulators and customers for a roundtable discussion on the future of the water market and the expectations of public sector customers. The debate focused on delivering service, sustainability and value and asked what lessons could be learnt from the water market in Scotland. We were the first English water company to compete in Scotland and continue to learn from our experiences there.

We continuously monitor our business customers' satisfaction with our service and strive to improve it. In response to customer feedback we have launched a new e-billing facility which allows easy analysis of historical trends and better visibility of water consumption and costs.

We also know that help with improving water efficiency and keeping down costs is important, so we have continued to develop a range of services to do just that. Our 'active water management' service helps an increasing number of business customers to ensure they only use as much water as they need to. We monitor and analyse customers' water use and alert them to opportunities to reduce it, saving precious time and money.

We continue to work with the Open Water Programme to shape the competitive market place, and are using our experience in Scotland to inform our strategy for the years to come. Alongside this work, we will continue to develop and provide innovative services to help customers become more efficient and sustainable in their water use.

Our world
Like the rest of the planet, our region faces increasing demands for water, food and energy to supply a growing population, while climate change threatens to alter global temperatures, seasons and weather patterns.

At Anglian Water we have to meet the rising demand for water while safeguarding the environment we borrow it from. We need to reduce our carbon emissions, our reliance on finite resources and reuse the materials and energy created by our operations to help address the need for energy and food.

By playing our part in helping the natural environment to flourish, we protect the quality of our raw material and the quality of life for the communities we serve.

We can also improve people's quality of life by working responsibly with those communities, managing our land for wildlife and recreation, creating jobs and caring for our employees and their families. We can also help build a sustainable future by making sure the next generation has a real personal belief in the value of that most precious natural resource, water.

Making sure supply meets demand
This winter our region got 213 mm of rainfall, 150% of the long-term average. This resulted in normal or high groundwater and river levels, with reservoir levels at maximum for the time of year. No drought restrictions were imposed during 2013/14 and given the current water resource situation none are expected in 2014/15.

We have now published our Draft Water Resource Management Plan, which lays out how we will balance supply and demand up to 2040. The plan was tested against a number of possible futures. While it proved robust in the short to medium term, there are significant risks in the medium to long-term from the effects of population growth, climate change and growing environmental need. In response, we have included proposals for a long-term strategic water resource planning project, Water Resources in East Anglia (WREA), in our PR14 Business Plan.

WREA is a multi-company, multi-sector planning initiative designed to ensure water supply systems in the Anglian region are resilient to the possible effects of growth and climate change, and able to meet current and future environmental needs. As part of the project, we will assess the need for investment in strategic water resource schemes such as a new generation of winter storage reservoirs.

We continued to deliver key drought and supply demand schemes during 2013/14 to maintain security of supply. Major schemes to abstract and treat 20 million litres of water per day from the River Trent to supply Lincoln, and to transfer 15 million litres of treated water per day from Grimsby to Boston are approaching completion. Schemes to further improve resilience against severe drought in North West Norfolk and Norwich are progressing through the capital delivery process.

Connections between major reservoirs forming the Ruthamford (Rutland-Grafham-Pitsford) supply system have improved following major investment. This will allow for best use of water resources during any future drought.

New groundwater resources have been developed at several locations in Norfolk. This will secure growth in and around the East of England against drought and licence changes imposed under the Restoring Sustainable Abstraction Programme. In addition, we have invested to make sure existing boreholes and treatment facilities, which deliver half our raw water supply, continue to operate effectively.

During 2013/14, the Government started consultation on proposals to reform the abstraction licensing system. We are looking to see what this means for us and whether any further investment may be needed to maintain our security of supply.

We also updated our draft Drought Plan and submitted a revised version for consultation in September 2013.

Following the drought of 2010-2012, we made the decision to drive down leakage rates below the target set by our regulators. In 2012/13 we achieved the lowest level of leakage in our history - 189 Ml/d compared to our regulatory target of 211 Ml/d, a saving of over 10%. This year, in 2013/14, the figure rose slightly to 193 Ml/d. Nevertheless, this remains our second lowest leakage rate ever.

Leakage monitoring means we spot and respond to more than 30% of leaks proactively, before customers are even aware of them. We continue to operate a rapid response to leak repairs and fixed more than 80% of all customer reported burst mains within two days. Our ambition is to fix all such bursts within two days, and we are working with local highways authorities and others to achieve this.

In March we began the roll out of our new Integrated Leakage and Pressure Management system, which will improve our ability to detect and control leakage even more efficiently.

In response to our customers' views, work is now underway for one of the most ambitious leakage reduction initiatives in the UK. Subject to Ofwat acceptance, our plan, which is supported by our customers, is to further reduce leakage by more than 18%, from the regulatory target of 211Ml/d, to 172 Ml/d.

During 2013/14, we have seen a jump in the amount of work related to housing growth in our region, due in part to the Government's 'Help to Buy' scheme and changes to the national planning system. We responded to consultations on 8% more planning applications than the previous year, providing councils with information on what developments would mean for our services. This work allows us to deliver new infrastructure in step with growth. Without it developments could increase the risk of sewer flooding, pollution and low water pressure.

Local Planning Authorities are now required to produce a Local Plan, which maps areas for new housing fifteen years or more ahead. We support a planned approach to new development and help councils in drawing up their plans. We supported the production of 4% more Local Plans last year than in 2012.

We also work hard to support developers, providing evidence to support their planning applications. We saw a 25% increase in these pre-planning applications last year and at the same time saw an increase in the number of customers saying they were very satisfied with the service.

A flourishing environment

We own and manage a great deal of land across the region, much of it of value to wildlife. This includes 47 Sites of Special Scientific Interest (SSSIs), covering nearly 3,000 hectares. Of these, 99.9% are judged to be in 'favourable' or 'recovering' condition. Good management means 49% are now 'favourable' compared to a national average of 37%. At Tetney Blow Wells, we completed a programme of tree management in 2013/14 which should see the move into favourable condition over the next two years.

We have continued our longstanding partnerships with The Wildlife Trusts at Rutland, Grafham and Pitsford Water, ensuring expert management at our largest SSSIs. At Taverham Mill near Norwich we created new riverside habitat to enhance its wildlife value and new visitor facilities for people to get close to nature.

Many of our operational sites have wildlife value or potential. As part of our Biodiversity Action Plan we are surveying them and working with staff to manage them appropriately. One example is work to manage land around a balancing lagoon on Ransomes Europark in Ipswich. Staff volunteers worked with Butterfly Conservation to improve conditions for the silver-studded blue butterfly, which is in decline nationally.

Partnership working continues to deliver significant benefits for wildlife in our region. For instance, The Lincolnshire Chalk Streams Project, for which we are a supporting partner, restored 200m of river at Donington-on-Bain. Our support for the long-running Water for Wildlife project helped schemes across the region, including river restoration on the Little Ouse headwater project, and the management of invasive species. And our partnership with the British Trust for Ornithology continued, funding important nightingale research. This year saw the first results of a pioneering tracking project, showing where the birds stop off on their journey to Africa and back from Grafham Water, and elsewhere in the UK.

The Gross Value Added of goods and services produced by coastal towns in the Anglian region has been estimated at £576 million a year, while 29,000 jobs in the region are linked to seaside tourism. Clearly, the quality of our coastal waters is of vital importance to the regional economy. Once again, all 48 of the region's bathing waters met the standards set out in the European Bathing Water Directive. They have now met this 'mandatory' standard for 12 years in a row. In 2013, the majority (40) met the higher 'guideline' standard. This is one of the requirements for a bathing water to be given Blue Flag status.

Changes to the Directive mean that from 2015 standards will be even tougher, so we continue to invest, using detailed modeling of our network and the coast itself to target money where it is needed. We were also one of the first UK water companies to provide beach owners, the Environment Agency and others with information about discharges from our combined sewage overflows (CSOs) through our BeachAware system. The system covers all our 48 bathing waters and allows beach owners to better advise bathers on water quality.

A similar system, Shellfish Live, is also being piloted, advising shellfish harvesters about water quality in the south of our region – the first system of its kind in the UK.

A smaller footprint

As one of the largest energy users in the East of England, we are working hard to mitigate the causes of climate change. We are leading by example, with a focus on measuring, managing and reducing our carbon emissions and cutting our reliance on finite resources. This brings considerable financial savings, makes our business more sustainable and drives innovation in our company and supply chain.

Annual gross operational carbon emissions have decreased by 8.9% in 2013/14 in comparison to the 2009/10 baseline, decreasing from 485,930 t/CO2e to 442,470 t/CO2e.

Overall gross emissions have decreased due to a reduction in grid electricity emissions, a 72% reduction in natural gas usage due to a change in an operational treatment process, reduction in grid electricity usage, and increased renewable generation.

Annual net operational carbon emissions, which include exported renewable energy, have reduced by 9.6% in 2013/14 in comparison to the 2009/10 baseline decreasing from 485,307 t/CO2e to 438,750 t/CO2e.

Our design engineers and capital delivery teams have delivered a 41% reduction in embodied (capital) carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

A detailed breakdown of our emissions is available in our annual Greenhouse Gas Report. Greenhouse gas emission data has been measured and reported in line with Defra Environmental reporting Guidelines, published in June 2013. This includes revised values for our 2009/10 baseline to align with Defra's June 2013 guidance.

Working with our supply chain, we are able to deliver low carbon, low cost solutions. For instance, during 2013, Uttons Drove Water Recycling Centre was extended to serve an additional 15,000 people and cope with a tightening of discharge consents. By adopting a strategy of off-site build, concrete to steel construction and duplicate function of single assets like tank walls, walkways and roads, the scheme was delivered with 48% reduced embodied carbon and 15% lower capital cost.

In 2013 we were successfully re-certified to the Achilles CEMARS (Certified Emissions Measurement and Reduction Scheme), confirming our measurement and reporting of greenhouse gas emissions in accordance with ISO 14064.

Anglian Water also chairs the Green Construction Board Infrastructure Working Group. As a result, we played a key role in producing the HM Treasury Infrastructure Carbon Review, published in November 2013. This reflected a number of lessons learned from our experiences in carbon management, highlighting the importance of leadership, innovation and procurement in reducing emissions.

Our energy strategy remains focused on ensuring that our energy supplies are secure and that we measure, manage and reduce our energy costs – and the associated carbon emissions.

We continue to ensure all new and existing assets are as energy efficient as possible. Our Energy Initiative has been running since 2006, so new energy-saving projects are getting harder to find and more complex to deliver. Despite this, significant savings continue to be made thanks to innovation and collaboration between Anglian Water and our supply chain. This year we have delivered about 150 energy-saving projects, saving about £1.7 million and reducing our consumption of electricity and fossil fuels. We have also piloted new technologies, such as Mapal Green Energy's Floating Fine Bubble Aeration system at our Stanbridgeford site. We are the first company in the UK to deploy this system, which was not only more energy efficient than the existing technology but also easier to install, add to and maintain.

The vast majority of the energy we buy now comes from a renewable source and what we generate ourselves has continued to grow. This year we produced 58.8 GWhs (50.4 GWhs in 2012/13) of electricity from our combined heat and power (CHP) engines, which are powered by biogas from our water recycling process. What was considered a waste treatment problem has become a cost effective water recycling process. The wind turbine at our March Water Recycling Centre contributed an additional 5.3 GWhs (2.4 GWhs in 2012/13), and two further turbines at Newton Marsh Water Recycling Centre will shortly become operational.

In 2013/14 the outputs from our CHP engines fell below annual targets and it became clear we needed to adapt the maintenance of the engines to reflect the increased scale of our operation. We have created a Renewable Energy Team of specialists to provide the necessary focus, expertise and proactive maintenance to maximise outputs and hit our regulatory commitments.

We continue to use back-up power supplies to manage our demand from the National Grid and to reduce our energy costs. This year we again participated in the National Grid's Short Term Operating Reserve service which generated an income and helped the National Grid manage the peaks on their network. We have also worked with Western Power Distribution (WPD) on their Project FALCON to explore how electricity customers can manage their demand so as to avoid the need for costly reinforcement of the electricity network.

One of the key messages to arise from our PR14 customer consultation was the need for our services to cope with the effects of disruptive events. To ensure our electricity supplies are as resilient as possible, we have worked closely with energy companies and through planning and exercising we have improved our response to power supply failures. We have also proposed significant investment in back-up power supplies at our biggest water treatment works.

Our aim is to become a zero waste company. This means increasing the amount of material we reuse and recycle in every part of our operation. This is a legal responsibility and helps make us a more efficient and sustainable business.

Last year saw us change the name of our sewerage operation from Wastewater to Water Recycling, to better reflect what we do. Sewage is mostly water, but it is not wasted. The water is cleaned and returned to the environment, while sludge is used to generate energy, and is treated so that it can be used as a soil conditioner on farmland. Indeed, our whole operation can be seen as an extension of the natural water cycle.

We have developed and patented a new way to condition sewage sludge prior to treatment. Heating, Pasteurisation, Hydrolysis (HpH) results in the production of higher quality biosolids for use on farmland at the same time as generating 5% more methane gas, which is converted into electricity by our CHP engines. Four HpH plants are now being built and commissioned at Basildon, Ipswich, Grimsby and Colchester. It has saved us around £3 million in capital expenditure, compared to the cost of building other more conventional technologies. The increase in gas production will lead to further operational cost benefits of more than £0.4 million per year.

During the year we have also improved our ability to monitor how much we reuse and recycle within our business. The figures show we recycled 96% of waste across the business in 2013/14. Our focus is now on improving the confidence grade that we give to the data we are collecting to establish our recycling rates.

Caring for communities

We believe investing in education and engagement is vital if we are to put water at the heart of a whole new way of thinking. So we've been working hard over the last year, showing people how they can make a difference in tackling important issues like climate change and population growth. In 2013/14, our education programme reached more than 27,000 children and adults through our education centres, in schools, and at community events.

This year saw the online publication of the first part of our Climate Change pack for Secondary schools. We have developed a new 'Future Customers' game called Liquid Assets, which challenges pupils to run a water company, take investment decisions for the future and protect water resources and the environment. We have also been working with Huntingdon Regional College, creating water friendly gardens at Grafham Water to inspire people to build their own sustainable green spaces.

We are working as part of Business in the Community's Business Class programme to support young people facing social disadvantage. We have developed three-year partnerships with four schools around the region to help them address some of the aspiration and attainment challenges they face. Our work is based on the needs of the individual schools and has involved careers fairs, events to improve employability and training with the schools' senior management teams. Over the next year we will give pupils from the schools work experience, work with them as part of our Year of Innovation, and provide more careers support.

150 people from across the water industry and beyond attended our inaugural 'Water Summit'. This event was a showcase for out Water Resource Management Plan, and profiled our approach to long-term planning. We spoke about our move from Wastewater to Water Recycling, part of our approach to a better understanding and connection with the water cycle. Interactive workshops discussed issues such as risk, growth and the environment.

A two day Keep it Clear event in Peterborough in December 2013 thanked our customers for reducing blockages for a second year running and to continue raising awareness of how to safely dispose of fats, oils and greases over the Christmas period. We used 3D street art to help promote our messages. This has since been used successfully at Bedford College's Sustainability Day and Lincoln University.

HRH The Prince of Wales was among hundreds of people to visit our stand at the Business Design Centre in London as part of Business in the Community's 'The Big Connect' event. Prince Charles heard about the work we're doing in Fenland, Cambridgeshire – one of the most deprived areas in our region – with our @one Alliance partners, as part of Business in the Community's Business Connectors programme. This national programme looks to improve employability, job opportunities and enterprise, and support those who are not in education, employment or training (NEETS).

In April 2013 we also teamed up with our capital delivery partners to select a senior operations manager to work on our behalf in Fenland. We've been working closely with the Ferry Project, a homeless charity in Wisbech, which took on the lease of a disused school with the aim of turning it into a thriving community centre. Nearly 150 volunteers came together over two days to renovate the disused building including employees, Directors and Love Every Drop Champions from Anglian Water and the @one Alliance, people from the Ferry Project, community volunteers, and Fenland District Council. This was done as part of our Love to Help volunteering scheme, which supports employees who want to make a positive difference to their communities and give time to causes that matter to them.

The centre is now used for jobs clubs, community activities and adult education programmes. This April nearly 400 people came to the Fenland Jobs and Skills Fair held at the centre to meet numerous major employers. In January we launched the 'Wisbech Jobs Café', which targets the local NEET population and is open every Monday. Looking forward, the programme will see how it can help address some of the causes of deprivation in Fenland.

Our water parks and nature reserves play a hugely important role in helping us deliver for customers. They provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us meet our goal of making a positive difference to the communities we serve. The prestigious Green Flag – the national standard for park management – was awarded to Alton Water in 2013, and maintained by both Grafham and Rutland Water Parks.

After a dip during the exceptionally wet summer of 2012, visitor numbers to our Water Parks rose dramatically last year. We are able to measure the number of people using the car parks at a number of our sites. Last year this climbed to more than 800,000 – an all-time high. Adding an estimate of the numbers at other sites and those taking part in sporting events, fishing, sailing and trips to nature reserves, we believe more than two million people visited our parks in the last year. More than 600 competitions, charity and public events were held at our parks through 2013.

During the last year, we won planning permission to transform our site at Taverham Mill near Norwich into a nature reserve, while Natural England approved an extension to game fishing at Rutland and Grafham Water into January and March. This should increase visitor activity during the winter.

Over the next 12 months we will continue to develop our parks, with plans to open the UK's largest inland beach at Rutland Water.

For our business to flourish in the future, it is important we ensure there is a steady supply of young, talented people joining the company where they can learn from experienced colleagues as they progress. We currently have 20 people on our Graduate scheme, and 96 Apprentices working across our water and water recycling operations. A further 42 apprentices will join the business this coming year.

As part of our continued commitment to our employees' professional development we have worked with the Institute of Water and the Science Council to establish a new Chartered Scientist award (CSci) specific to the Water Industry. By the end of April 2014, 25 of our scientists had completed the award.

Throughout 2013/14 we have maintained our focus on health and safety as one area of our business where no compromise is acceptable. As driving, both for and outside of work, is the most dangerous activity for many of our employees, we rolled out a programme of driver risk assessments and seminars in 2013/14. We will complete this work over the next 12 months.

Twice a year we open ourselves up for detailed external audit by specialists from Lloyds Register Quality Assurance and, as a result, we have maintained OHSAS 18001 accreditation for our health and safety system since 2009.

Although the last year saw a very slight increase in the accident rate and in the number of potentially serious incidents, our overall health and safety performance remains very strong, as shown by our RoSPA award. The number of days lost to sickness fell after a very slight rise last year. In 2013/14 the number of Category 1 incidents – those that are classified as very serious – was 11 (2012/13: 8, 2011/12: 9). None of these incidents resulted in a Category 1 injury. Our accident frequency rate remains very low at 0.21 accidents per 100,000 hours worked (2012/13: 0.16, 2011/12: 0.28), while our sick absence rate is at an all time low of 4.96 days per person per year (2012/13: 5.56, 2011/12: 5.10).

Getting it right for you

The services we provide are essential for the health and wellbeing of millions of people, so our pipes, pumps, buildings and equipment have a vital job to do. We need to run them efficiently and maintain them effectively so they provide those services now and into the future. We also need to innovate, to keep looking for new ways to do things, to improve efficiency and reduce the costs and risks of running the business.

To do all this, we have to run a financially responsible business earning fair profits. We must be able to raise finance efficiently and at relatively low costs to ensure enough money for future investment.

Investing for tomorrow

In the fourth year of the AMP5 period (2010–15), we continued to build on the solid performance achieved in AMP4 (2005–10), when Ofwat ranked us as leading in terms of capital efficiency in both water and sewerage sides of the business. We continue to invest heavily to increase the resilience of our services and protect customers' supplies. This has included work to improve our ability to move water around the region; protect our existing supplies through improved detection and repair of leaks; support growth in our region and work with developers.

We will continue to invest to safeguard customers' supply in vulnerable areas of our region, both alone and in partnership with other water companies. By the end of AMP5 we plan to have invested over £2 billion in assets across our region. This year, we continued to focus on the low carbon, low whole-life cost and on-time delivery of schemes while ensuring we met quality standards. We have done this in collaboration with our capital delivery partners and supply chain. Our biggest suppliers and contractors share our vision and their help is vital to meeting the goals we have set ourselves through Love Every Drop and our Strategic Direction Statement (SDS).

Alongside delivering the rest of our AMP5 programme, we are looking to the next five year period. We want to maintain the efficient, low carbon delivery we have achieved in this period and push further, with a new drive around water footprinting and the impacts of climate change.

The performance of our assets remained solid this year and improved in several critical areas. Where problems have arisen we have been quick to investigate and fix them, working hard to understand and solve any underlying issues. During the year, we became one of the first companies in the world to achieve the ISO 55001 accreditation, the new international standard for asset management. This standard is awarded to businesses that effectively and efficiently manage their approach to asset management; whether it's physical infrastructure, management processes, maintenance or planning.

Throughout the year, we have delivered consistently good performance at our water treatment works and are currently in the middle of a major project to improve all of our final water sampling points.

We dealt with slightly fewer burst mains this year and saw a fall in the number of reactive jobs, where we respond to reports of bursts from our customers. This fall in reactive jobs was mirrored by a rise in the number of bursts we found and fixed proactively, leading to a better service for customers.

During the year we completed a new predictive model, which looks at the effect of unusual weather on different pipe materials. This should help us to understand the likely increase in burst mains depending on the severity of the weather.

Performance is also at target levels at our water recycling sites and we continue to invest in improvements at key sites. Nevertheless, the compliance of our water recycling centres was an area of focus and concern. High levels of sludge retained through the process caused the number of failing works to increase to 16 (2012/13: 14), although this still fell within acceptable reference levels. By collecting vital process data and analysing trends, we are able to build up a picture of how our works are performing and identify where we are carrying operational risk. Although the number of failing works was disappointing, the overall number of failing samples fell by 10%. We also saw a fall in the number of works with one or no failures left, which indicates our overall compliance risk is reducing.

We saw a significant improvement in the performance of our sewerage network with fewer flooding incidents, blockages and collapses. This is due to our programme of Planned Preventative Maintenance, the continued success of our Keep It Clear campaign and other initiatives, including the central monitoring of pollution incidents to ensure our response is timely and appropriate, and the use of a 'blue light response' to potential incidents where we know there is a higher than normal risk of flooding and pollution.

There was a significant increase in the number of Category 1 and 2 pollutions this year, with the number rising from three to nine. There was no individual reason for the rise, but rather a mixture of causes, including the weather and environmental sensitivity. While the number of incidents is not outside the normal range for us as a company, it is clear we need to continue to challenge and evolve our approach to operating the network to drive performance towards our goal of no pollutions.

We have delivered a strong performance against all areas for the 2013/14 year, and we are confident that this confirms stable serviceability performance for our customers.

With the next five-year period (AMP6) beginning in 2015, we have taken the opportunity to change the way we deliver our capital investment. We have put out to market our entire capital delivery programme, and all our contractors will be appointed on the basis that they are signing up to deliver the outcomes asked for by our customers. This includes reducing our carbon footprint by meeting our Love Every Drop goal to reduce embodied and operational carbon.

Most of our capital investment is currently delivered through six groups of framework agreements. In AMP6 this will be reduced to four new 'delivery vehicles'. In May 2014, we announced our partners for the first of these - Integrated Main Works Capital (IMWC) - which will cover all types of complex construction and refurbishment projects. Our IMWC partners are signing up to a Total Outperformance commercial model. This means they make their profits from innovating to outperform our business plan figures and becoming more efficient, rather than traditional fees on turnover. We believe this all adds up to an industry leading approach, and there have been several other innovations in our procurement process.

We have gone for a potential 15 year term – three AMP periods, the longest in the industry – to ensure real, long-term collaboration and unlock the most joint investment for tomorrow. Over half of the weighting during the recruitment process was given to the behaviour of staff from bidding companies, not just tendered prices. This was to make sure we got the right people as well as the right partners.

The last year saw significant flooding around the UK from rivers, sea and surface water. Such events are likely to become more common, threatening to disrupt our services. The Flood and Water Management Act places a duty on everyone with responsibility for tackling flood risk to co-operate and share information. As a result we are working with the 21 Lead Local Flood Authorities (LLFAs) in our region to plan for the future. This year we have helped with a large number of flooding strategies, plans, investigations and reports.

We have begun discussions with all LLFAs in our region, asking them to identify projects where they would be asking for contributions during AMP6. Where these projects also provide benefits for our customers, we have proposed partnership funding to support them within our next five year investment period. As a result we could help fund 53 projects at a cost of £8.4 million between 2015 and 2020.

We remain an industry leader on the adoption of sustainable drainage systems (SuDS) on new developments. These improve an area's natural ability to absorb surface water and reduce flood risk without expensive, carbon intensive engineering solutions. This helps to provide developers with security in a time of uncertainty and helps enable growth. We are also working with Defra and Water UK, playing an important role in shaping National Standards for Sustainable Drainage.

The challenges facing us are also driving innovation and transforming our business. We see Anglian Water becoming a hub of innovation in our region, creating wealth and jobs. Innovations have already reduced costs, environmental impacts and operational risk. It is anticipated our core innovation programme will deliver more than £20 million in benefits over AMP5 in capital and operational cost savings.

We develop innovative solutions in-house, with our suppliers and with universities in our region. We also collaborate with others through our Water Innovation Network (WIN), which is a partnership between Anglian Water and Opportunity Peterborough. More than 500 organisations are now involved, with more than 250 ideas submitted. So far, 10 have been implemented by the business.

One successful submission was made by Peterborough-based Royal Haskoning DHV. Its temperature sensing, fibre optic technology accurately identifies sewer infiltration and misconnections.

We also play a key role in the national Innovation Leadership Group, chaired by Defra. This group has developed a strategy to align UK research and innovation programmes with national priorities like energy, climate change and wealth creation.

Fair profits

Anglian Water is a private company that provides an essential public service. We have a monopoly in providing those services, although we are very tightly regulated. This system has led to better services, more investment in infrastructure, and allowed us to pass on maintenance and efficiency gains in customers' bills. We believe a fair profit depends on driving efficient performance rather than increasing costs for customers.

Nevertheless, customers have to be sure what we do is legitimate. For that to happen, they need to see we are a responsible long-term steward of water and water recycling services. We also need to be transparent and open about how our business is structured and managed, our decision-making and performance, the profits we make, what we pay our executives and what we pay in taxes.

Anglian Water takes its responsibilities as a good corporate citizen very seriously. We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid.

Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund that investment. We have one of the largest levels of private capital investment in the region, worth over £2 billion between 2010 and 2015. This is central to underpinning economic recovery and growth of the regional economy. This investment defers some of our corporation tax liabilities until a later period, and is something the Government actively encourages. Customers also benefit from the deferral as it helps to keep bills lower.

We confirm that we comply with the recently published CBI Statement of Tax Principles, which aims to drive greater tax transparency in business and encourages companies to explain what they do in a straightforward and accessible narrative. However, the company's total tax contribution for the year extends significantly beyond the payment for corporation tax.

Total tax paid or collected in the year to 31 March 2014 amounted to £167 million (2013: £178 million) of which £53 million was collected on behalf of the authorities for net Value Added Tax (VAT) and employee payroll taxes.

The most significant taxes involved, together with their profit impact were:

- Business rates of £58 million paid to local authorities. This is a direct cost to the company and reduces profit before tax.
- Employment taxes of £33 million including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of £13 million were charged approximately 73% to operating costs, reducing profit before tax, with 27% capitalised to fixed assets.
- VAT of £20 million collected and paid to HMRC. VAT has no material impact on profit before tax.
- Abstraction licences and direct discharges of £18 million. This is a direct cost to the company and reduces profit before tax.
- Fuel Excise Duty (FED) of £5 million related to transport costs and charged to operating costs, reducing profit before tax.
- Carbon Reduction Commitment (CRC) of £5 million was also charged to operating costs, reducing profit before tax.

Over the last four years we have sought a fair balance in the sharing of outperformance with our customers. We have committed £205 million of additional expenditure on customer priorities, including £43 million to protect customers against the impact of drought and £30 million to keep leakage at an all-time low. We have also absorbed a further £50 million of additional costs arising from the adoption of private sewers and increased bad debts, without seeking to recover the costs from customers. In addition, 70% of any further efficiencies will be passed back to customers through lower bills over the five years 2015-20.

We also chose to hold the increase in bills in 2014/15 below the level allowed for by the regulatory settlement. This reduced the amount payable by customers by £10 million, which equates to a £4 saving on the average household bill.

Financial performance

Anglian Water Services Limited is part of the Anglian Water Group. The company operates on an arm's-length basis from other companies within the group. The financial results for the year ended 31 March 2014 are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc.

The financial results have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The company's activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and wastewater) and the conditions of an Instrument of Appointment (the Licence) granted to the company by the Secretary of State for the Environment on 1 September 1989.

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Turnover	**1,214.0**	1,163.0
Operating costs	**(451.2)**	(445.8)
Depreciation (1)	**(271.8)**	(262.4)
Operating profit before goodwill amortisation	**491.0**	454.8
Goodwill amortisation	**(68.7)**	(68.7)
Operating profit	**422.3**	386.1
Finance costs (adjusted) (2)	**(330.9)**	(345.8)
Profit before tax (adjusted) (3)	**91.4**	40.3
Current tax charge	**(22.4)**	(30.2)
Deferred tax credit	**19.1**	24.3
Profit after tax (adjusted) (3)	**88.1**	34.4

(1) Depreciation net of amortisation of grants and contributions.
(2) Finance costs excluding the interest receivable from Anglian Water Services Holdings Limited of £192.3 million (2013: £192.7 million).
(3) The statutory profit before tax for Anglian Water Services Limited is £352.4 million (2013: £301.7 million) and the statutory profit after tax is £349.1 million (2013: £295.8 million) which includes the interest receivable from Anglian Water Services Holdings Limited referred to above and excludes the allocated goodwill amortisation of £68.7 million (2013: 68.7 million).

Turnover for the year was £1,214.0 million, up 4.4% on last year. This reflects the regulatory price increase of 4.1% (K factor of 1.1% and RPI of 3.0%), and other increases of 0.3% due principally to a recovery in demand from household customers, partially offset by lower demand from our smaller non-household business customers. The net increase is consistent with the drier and warmer weather in the summer of 2013, and early spring of 2014 which saw a return to more normal levels of household consumption. This was in contrast to the late spring and summer of 2012 being exceptionally wet, which suppressed demand.

Operating costs for the year increased by £5.4 million (1.2%) to £451.2 million (2013: £445.8 million). The increase is explained in the following table.

Increases/(decreases) in operating costs	**£m**
One-off costs associated with the initial drought response followed by the prolonged wet spell in 2012	(7.5)
General inflationary increases	13.8
Power – predominantly rate increases	8.4
Operating costs of newly commissioned plant	4.2
Increase in bad debt charge	1.6
Net reduction in rates following a rates review	(8.5)
Increase in insurance claims due to tidal surges and the exceptionally wet winter	3.4
Reduction in network maintenance work due to mild winter temperatures	(2.4)
Other increases (principally compliance with new regulations for water fittings and pension auto-enrolment)	3.7
Cost and efficiency savings	(11.3)
Net increase in operating costs	5.4

The continuing management focus on customer debt collection meant that the increase in the bad debt charge was largely in line with the increase in turnover, rising by £1.6 million to £32.4 million for the year (2013: £30.8 million). Expressed as a percentage of turnover the bad debt charge for 2014 was relatively unchanged at 2.67% compared with 2.65% in the prior year.

The cost and efficiency savings are derived from a range of initiatives including energy conservation and self-generation; optimising commodities' sourcing; centralised management of operations; renegotiating supplier contracts on improved terms; more efficient asset maintenance programmes; and more efficient treatment and haulage of bio-solids.

Depreciation is up 3.6% compared with last year, consistent with a higher charge for infrastructure renewals and depreciation on newly commissioned operating assets.

Operating profit before goodwill amortisation has risen by 8.0% to £491.0 million as a result of the increase in turnover, partially offset by the more modest increases in operating costs and depreciation.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £192.3 million; 2013: £192.7 million) decreased by 4.3% from £345.8 million in 2013 to £330.9 million in 2014. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, and a net saving year on year of £5.0 million related to the accelerated buy-back of a proportion of our Class B 6.75% debt in March 2013.

The current tax charge on the profit before tax of £160.1 million (excluding goodwill amortisation and intra-group interest receivable) was £22.4 million (2013: £30.2 million). This reflects a reduction in the corporation tax rate from 24% to 23% for the year and a higher level of capital allowances claimed on the substantial capital investment we make (including over £2 billion in the current five-year regulatory period), as agreed with our regulator to improve the service to customers. The total tax charge of £3.3 million (2013: charge of £5.9 million) consists of the current tax charge of £22.4 million less a deferred tax credit of £19.1 million (2013: credit of £24.3 million). In the prior year we had a larger deferred tax credit, which was principally attributable to the level of discounting of the deferred tax liability. Total tax paid or collected in the year to 31 March 2014 other than corporation tax amounted to £167 million (2013: £178 million) of which £53 million was collected on behalf of the authorities for net Value Added Tax (VAT) and employee payroll taxes. Further details are provided in the section on fair profits on pages 32 and 33.

Successful fourth year of AMP5 investment programme

Gross capital expenditure in the appointed business for the year was £424.3 million (£227.9 million on capital maintenance, £196.4 million on capital enhancement), compared to £496.5 million in 2013. Cumulatively to the end of the fourth year of the current regulatory period we continue to be in line with expected regulatory outputs. Projects progressed during this year include a £9.7 million scheme to support growth in Cambridgeshire, new infrastructure totalling £29.0 million taking water from North Lincolnshire to the Boston area and £45.0 million on a major new Water Treatment Works at Hall in Lincolnshire.

While the challenge becomes increasingly more difficult, we continue to both identify and deliver efficiencies on our investment programme. Delivering this efficiency is key to our ability to finance additional schemes which allow us to maintain high quality service, enhance our resilience and react to emergencies.

We have delivered a 41% reduction in embodied carbon in the schemes we are delivering this year compared to our AMP5 baseline. As embodied carbon is an excellent proxy for the use of finite materials and energy used in building new assets, our approach is not only good for the environment but also provides significant business efficiencies with a proven link between reducing carbon and reducing costs. This has been achieved through clear challenges to and collaboration with our supply chain; robustly challenging the needs of new assets; re-using existing assets where possible; and challenging traditional construction techniques. For example, in modelling the embodied carbon impacts of laying a small diameter main, we identified that over 80% of emissions were from excavating and reinstating a trench in a road. To reduce carbon, we now avoid the use of a trench, with the majority of water mains installed via 'no dig' techniques such as directional drilling.

Continuing the work we have already done in this current regulatory period to increase our resilience and protect existing customers' supplies, we have invested during the year a further £13 million in leakage detection and repair work and further investment is planned for 2014/15.

An additional £3.4 million was spent on the non-appointed business, mainly in relation to installing two wind turbines at one of our sites as part of our renewable energy commitment.

Financial needs and resources

In the year to 31 March 2014 Anglian Water raised £403.8 million of new funds and made debt repayments of £654.8 million. Debt repayments comprised: £4.0 million of finance leases; a Euro 650 million 4.625% fixed rate bond (£453.2 million) together with £97.6 million of RPI indexation payable on the associated maturing £258.0 million index-linked swap; and a £100.0 million 12.375% fixed rate bond. In addition, during the year we also drew down and subsequently repaid £67.0 million on our capital expenditure liquidity facility. This is consistent with our strategy to optimise the timing of raising new debt to reduce the cash cost of carry, whilst utilising existing liquidity facilities as necessary.

At 31 March 2014 Anglian Water had net borrowings of £5,498.3 million, an increase of £236.7 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £6,185.7 million and cash and deposits of £687.4 million. The increased net borrowings reflect a decrease of £390.6 million in cash and deposits (which causes net debt to increase) and a decrease of £153.9 million in loans and associated costs reflecting the significant repayment of maturing debt during the year.

The business generated a net cash inflow from operating activities of £726.1 million in the year ended 31 March 2014 (2013: £691.1 million).

Liquidity

Anglian Water's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2014 Anglian Water held cash, deposits and current asset investments of £687.4 million (2013: £1,078.0 million). The decrease in cash held compared to the prior year reflected the significant pre-funding in 2012/13 of debt repayments falling due in 2013/14. These resources are maintained to ensure appropriate liquidity and the continuation of Anglian Water's ongoing capital investment programme.

The £403.8 million of new debt raised during the year comprised: a £35.0 million 1.141% Class A 2042 index-linked bond issue; £203.6 million of Class A US private placements and a £100.2 million Class B US private placement; and £65.0 million of European Investment Bank index-linked funding.

Anglian Water has access to £420.0 million of facilities (2013: £420.0 million), which were undrawn at 31 March 2014, to finance capital expenditure and working capital requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (2013: £365.0 million), consisting of £279.0 million to finance debt service costs and £96.0 million to finance operating expenditure and maintenance capital expenditure in the event that Anglian Water was in default on its debt obligations and had insufficient alternative sources of liquidity.

All bank facilities and debt capital markets issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between Anglian Water Services Limited, Anglian Water Services Financing Plc (AWSF) and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to Anglian Water Services Limited upon utilisation of the facility.

Interest rates

Anglian Water's policy is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 54.0% (2013: 54.8%) of Anglian Water's borrowings were at rates indexed to RPI, 37.0% (2013: 34.6%) were at fixed rates and 9.0% (2013: 10.6%) were at floating rates.

Looking ahead

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. We will continue to ensure that stakeholder and customer support for our work programme drives innovation, collaboration, improved efficiency and excellent customer service.

We will also work with Ofwat to secure the best possible determination for our customers and for our business, in the context of the challenges that we and our region face.

PROPERTY

Financial performance and Key Performance Indicators

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Operating loss	**(7.5)**	(7.1)
Operating cash flow	**(9.8)**	(7.3)
Capital employed at 31 March	**13.3**	13.0

Introduction
During 2013/14, the group's strategy has been to continue to pursue the realisation of value and mitigation of risk from its property investments. Notwithstanding the difficult commercial property market present throughout 2013/14, and which is expected to continue during 2014/15, this process has allowed the realisation of a further £1.6 million of value from certain strategic land assets and a reduction in joint venture off balance sheet debt by £1.9 million to a level of £66.4 million at year end. The funding for a majority of the joint ventures has been secured through to March 2016, which should provide a platform for future recovery of the relevant 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 £13.8 million (2013: £17.0 million) and the operating loss for the year was £7.5 million (2013: £7.1 million) as a result of the continuing difficult property market.

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 over time and as the market recovers.

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 2014 the gross deficit for the group (before deferred tax) was £61.0 million (2013: £86.2 million), with the deficit reduction contributions made in the year benefitting pension scheme assets. In addition, a decrease in future CPI inflation assumptions has reduced future pension scheme liabilities. 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 2014 the group held cash, deposits and current asset investments of £741.3 million (2013: £1,156.4 million) and had undrawn committed multi-currency facilities of £820 million (2013: £810 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 2014 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 79.6% (2013: 79.5%) and 85.4% (2013: 85.6%) 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 Holdco Limited, 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 2014, 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.

Approval of the strategic report

This strategic report was approved by the board of Directors on 10 July 2014 and signed on its behalf by:

Claire Russell
Company Secretary

Anglian Water Group Limited

Group profit and loss account

for the year ended 31 March 2014

Notes		2014 £m	2013 Continuing operations £m	2013 Discontinued operations £m	2013 Total £m
2	**Turnover**				
	Turnover (including share of joint ventures)	**1,270.5**	1,215.6	179.9	1,395.5
	Less: share of turnover of joint ventures	**(5.0)**	(6.9)	-	(6.9)
	Group turnover	**1,265.5**	1,208.7	179.9	1,388.6
	Operating costs:				
	Operating costs before goodwill amortisation	**(795.9)**	(778.7)	(181.0)	(959.7)
	Goodwill amortisation	**(68.7)**	(68.7)	(1.1)	(69.8)
3	**Group operating costs**	**(864.6)**	(847.4)	(182.1)	(1,029.5)
	Group operating profit/(loss)	**400.9**	361.3	(2.2)	359.1
	Share of operating profit in joint ventures	**1.7**	1.5	-	1.5
	Total operating profit				
	Operating profit/(loss) before goodwill amortisation	**471.3**	431.5	(1.1)	430.4
	Goodwill amortisation	**(68.7)**	(68.7)	(1.1)	(69.8)
2	**Total operating profit/(loss)**	**402.6**	362.8	(2.2)	360.6
4	Profit/(loss) on disposal of discontinued operations	**1.3**	-	(17.8)	(17.8)
	Profit/(loss) on ordinary activities before finance charges	**403.9**	362.8	(20.0)	342.8
5	Net interest payable and similar charges	**(391.9)**			(396.6)
6	Other finance costs (net)	**(4.7)**			(3.3)
7	**Profit/(loss) on ordinary activities before taxation**	**7.3**			(57.1)
8	Tax on profit/(loss) on ordinary activities	**24.1**			11.1
	Profit/(loss) on ordinary activities after taxation	**31.4**			(46.0)
	Equity minority interest	**(2.4)**			(2.0)
	Profit/(loss) for the financial year	**29.0**			(48.0)

The results above for the year ended 31 March 2014 arose from continuing operations, with the exception of the profit on disposal of discontinued operations of £1.3 million.

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

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

Group statement of total recognised gains and losses

for the year ended 31 March 2014

Notes		2014 £m	2013 £m
	Profit/(loss) for the financial year		
	Group	**28.8**	(48.0)
	Joint ventures	**0.2**	-
		29.0	(48.0)
22c	Actuarial gain/(loss) recognised on the pension schemes	**0.2**	(55.8)
	Current tax relating to the actuarial gain/(loss) on the pension schemes	**1.2**	6.5
	Deferred tax relating to the actuarial gain/(loss) on the pension schemes	**(1.2)**	6.9
	Impact of change in tax rate on deferred tax on the pension schemes	**0.5**	0.1
	Currency translation differences on foreign currency net investments	**0.1**	-
	Total recognised gains and losses relating to the year	**29.8**	(90.3)
	Total recognised gains and losses relating to the year		
	Group	**29.6**	(90.3)
	Joint ventures	**0.2**	-

Group statement of movement in shareholders' funds

for the year ended 31 March 2014

Notes		2014 £m	2013 £m
	Total recognised gains and losses relating to the year	**29.8**	(90.3)
11	Dividends	**(128.8)**	(104.5)
	Movement in shareholders' funds	**(99.0)**	(194.8)
	Shareholders' funds at the beginning of the year	**98.8**	293.6
	Shareholders' funds at 31 March	**(0.2)**	98.8

Anglian Water Group Limited

Group and company balance sheets

at 31 March 2014

Notes		Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
	Fixed assets				
12	Intangible assets	**866.7**	935.4	-	-
13	Tangible assets	**6,068.5**	5,944.9	-	-
14	Investments				
	Joint ventures				
	Share of gross assets	**38.6**	38.5	-	-
	Share of gross liabilities	**(39.1)**	(38.5)	-	-
	Amounts included in provisions	**0.5**	-	-	-
		-	-	-	-
	Other investments	-	-	**1,211.2**	1,211.2
	Total investments	-	-	**1,211.2**	1,211.2
		6,935.2	6,880.3	**1,211.2**	1,211.2
	Current assets				
15	Stocks	**25.9**	25.0	-	-
16	Debtors	**502.7**	484.4	-	-
14	Investments	**80.9**	137.0	-	-
	Cash at bank and in hand (including short-term deposits)	**660.4**	1,027.4	-	-
		1,269.9	1,673.8	-	-
	Creditors: amounts falling due within one year				
17	Short-term borrowings	**(76.4)**	(662.4)	-	-
17	Other creditors	**(528.7)**	(555.5)	-	-
		(605.1)	(1,217.9)	-	-
	Net current assets	**664.8**	455.9	-	-
	Total assets less current liabilities	**7,600.0**	7,336.2	**1,211.2**	1,211.2
	Creditors: amounts falling due after more than one year				
18	Loans and other borrowings	**(7,327.7)**	(6,920.0)	-	-
18	Other creditors	**(134.7)**	(132.9)	-	-
		(7,462.4)	(7,052.9)	-	-
20	**Provisions for liabilities**	**(84.5)**	(114.1)	-	-
	Net assets excluding pension liabilities	**53.1**	169.2	**1,211.2**	1,211.2
22d	Pension liabilities	**(48.8)**	(66.4)	-	-
	Net assets including pension liabilities	**4.3**	102.8	**1,211.2**	1,211.2
	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	**(1,096.4)**	(997.4)	**115.0**	115.0
	Total shareholders' (deficit)/funds	**(0.2)**	98.8	**1,211.2**	1,211.2
	Minority interest	**4.5**	4.0	-	-
	Capital employed	**4.3**	102.8	**1,211.2**	1,211.2

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

The financial statements were approved by the board of Directors on 10 July 2014 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Anglian Water Group Limited

Group cash flow statement

for the year ended 31 March 2014

Notes		2014 £m	2013 £m
a)	**Net cash inflow from operating activities**	**709.1**	664.8
	Returns on investments and servicing of finance		
	Interest received	**6.1**	9.2
	Interest paid	**(315.1)**	(317.7)
	Issue costs paid	**(3.5)**	(5.2)
	Interest element of finance lease rental payments	**(2.0)**	(2.5)
	Dividends paid to minority interests	**(1.8)**	(2.1)
	Net cash outflow for returns on investments and servicing of finance	**(316.3)**	(318.3)
	Taxation	**(0.7)**	1.6
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(465.4)**	(527.4)
	Grants and contributions received	**28.8**	21.9
	Disposal of tangible fixed assets	**1.4**	3.3
	Net cash outflow for capital expenditure and financial investment	**(435.2)**	(502.2)
	Disposals		
b)	Disposal of subsidiary undertakings	**8.9**	0.6
	Net cash inflow for disposals	**8.9**	0.6
	Equity dividends paid	**(128.8)**	(104.5)
	Net cash outflow before management of liquid resources and financing	**(163.0)**	(258.0)
c)	**Management of liquid resources**		
	Decrease/(increase) in short-term deposits and investments	**262.8**	(290.1)
	Financing		
	Increase in amounts borrowed	**403.8**	851.2
	Repayment of amounts borrowed	**(651.6)**	(256.7)
	Capital element of finance lease rental payments	**(4.0)**	(3.5)
	Net cash (outflow)/inflow from financing	**(251.8)**	591.0
d)	**(Decrease)/increase in cash**	**(152.0)**	42.9

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

Notes to the group cash flow statement

for the year ended 31 March 2014

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

	2014	2013		
		Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m
Group operating profit	**400.9**	361.3	(2.2)	359.1
Depreciation (net of amortisation of deferred grants and contributions)	**284.0**	274.6	1.3	275.9
Goodwill amortisation	**68.7**	68.7	1.1	69.8
Profit on sale of fixed assets	**(0.9)**	(2.2)	-	(2.2)
Difference between pension charge and cash contributions	**(29.0)**	(29.9)	0.4	(29.5)
Net movement in provisions	**(2.7)**	(0.6)	-	(0.6)
Working capital:				
Increase in stocks	**(0.9)**	(0.3)	(0.2)	(0.5)
Increase in debtors	**(18.4)**	(87.6)	(3.3)	(90.9)
Increase/(decrease) in creditors	**7.4**	89.8	(6.1)	83.7
	(11.9)	1.9	(9.6)	(7.7)
Net cash inflow from operating activities	**709.1**	673.8	(9.0)	664.8

For the year ended 31 March 2014 all of the above cash flows related to continuing operations.

b) Disposal of subsidiary undertakings

	2014	2013
	£m	£m
Cash consideration received	**9.3**	16.0
Cash at bank and in hand disposed with subsidiary undertakings	**-**	(11.4)
Disposal costs paid	**(0.4)**	(4.0)
Net cash inflow for disposal of subsidiary undertakings	**8.9**	0.6

On 25 April 2013, the group's holding of shares in Mears Group Plc, which were acquired as part of the total consideration received for the disposal of Morrison Facilities Services, were sold for an additional £9.3 million.

c) Management of liquid resources

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

d) Analysis of net debt

	At 1 April 2013 £m	Cash flows £m	Non-cash movements £m	Exchange movements £m	At 31 March 2014 £m
Cash at bank and in hand	287.8	(152.0)	-	(0.3)	**135.5**
Deposits and investments	868.6	(262.8)	-	-	**605.8**
Debt due within one year	(662.4)	655.6	(69.6)	-	**(76.4)**
Debt due after one year	(6,920.0)	(400.3)	(7.4)	-	**(7,327.7)**
	(6,426.0)	**(159.5)**	**(77.0)**	**(0.3)**	**(6,662.8)**

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 £524.9 million (2013: £739.6 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 2014, £94.6 million (2013: £235.9 million) of the group's cash at bank and in hand and £592.8 million (2013: £842.1 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 £0.9 million (2013: £1.4 million) of the group's deposits and investments was held as collateral for outstanding loan notes. In addition, £3.6 million (2013: £2.1 million) of the group's cash at bank and in hand and £0.5 million (2013: £1.5 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.

e) Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
(Decrease)/increase in cash	**(152.0)**	42.9
(Decrease)/increase in short-term deposits and investments	**(262.8)**	290.1
Increase in amounts borrowed	**(403.8)**	(851.2)
Repayment of amounts borrowed	**651.6**	256.7
Capital element of finance lease rental payments	**4.0**	3.5
Issue costs relating to new borrowings	**3.5**	5.2
Amortisation of discount and expenses relating to debt issues	**(5.0)**	(5.4)
Amortisation of fair value adjustments	**26.6**	36.0
Indexation of loan stock and RPI swaps	**(98.6)**	(111.5)
Loans disposed with subsidiary undertakings	**-**	7.2
Exchange differences	**(0.3)**	0.1
Movement in net debt	**(236.8)**	(326.4)
Net debt at the beginning of the year	**(6,426.0)**	(6,099.6)
Net debt at 31 March	**(6,662.8)**	(6,426.0)

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.

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.

1. Accounting policies (continued)

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 sewerage 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 £5.2 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.

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.

1. Accounting policies (continued)

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.

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 the 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.

1. Accounting policies (continued)

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 private 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 sewerage 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.

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.

1. Accounting policies (continued)

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.

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.

Other investments comprise equity investments that are not being held for the long-term, and are stated at cost less any provision for impairment.

1. Accounting policies (continued)

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 sewerage 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 £5.2 million).

ii. *Pensions*

The group operates a number of defined benefit schemes (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 £61.0 million (2013: £86.2 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 2014

At 31 March 2014 the group was organised into the following main businesses:

- Anglian Water; regulated water, sewerage and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- AWG Property; commercial and residential property developer.

Following its disposal on 7 November 2012, the following business has been classified as a discontinued operation in accordance with FRS 3 'Reporting financial performance':

- Morrison Facilities Services; providing repair and maintenance and capital investment services to local authority clients.

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Profit on disposal of discontinued operations £m	Goodwill amortisation £m	Profit before finance charges £m	Net operating assets/ (liabilities)[2] £m
Continuing operations						
Anglian Water	**1,214.0**	**491.0**	-	(68.7)	**422.3**	**6,721.7**
AWG Property	**13.8**	**(7.5)**	-	-	**(7.5)**	**13.3**
Other [1]	**43.3**	**(11.9)**	-	-	**(11.9)**	**(38.8)**
Less: Intersegmental trading	**(0.6)**	**(0.3)**	-	-	**(0.3)**	**-**
	1,270.5	**471.3**	-	(68.7)	**402.6**	**6,696.2**
Discontinued operations						
Morrison Facilities Services	**-**	**-**	1.3	-	**1.3**	**-**
	1,270.5	**471.3**	**1.3**	**(68.7)**	**403.9**	**6,696.2**
Net debt						**(6,662.8)**
Current tax						**(0.4)**
Deferred tax						**(28.7)**
						4.3
Total						
Group	1,265.5	469.6	1.3	(68.7)	402.2	
Joint ventures	5.0	1.7	-	-	1.7	

[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 2013

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Loss on disposal of discontinued operations £m	Goodwill amortisation £m	Profit before finance charges £m	Net operating assets/ (liabilities) £m
Continuing operations						
Anglian Water	1,163.0	454.8	-	(68.7)	386.1	6,611.9
AWG Property	17.0	(7.1)	-	-	(7.1)	13.0
Other	36.1	(16.2)	-	-	(16.2)	(34.1)
Less: Intersegmental trading	(0.5)	-	-	-	-	-
	1,215.6	431.5	-	(68.7)	362.8	6,590.8
Discontinued operations						
Morrison Facilities Services	179.9	(1.1)	(17.8)	(1.1)	(20.0)	-
	1,395.5	430.4	(17.8)	(69.8)	342.8	6,590.8
Net debt						(6,426.0)
Current tax						(0.6)
Deferred tax						(61.4)
						102.8
Total						
Group	1,388.6	428.9	(17.8)	(69.8)	341.3	
Joint ventures	6.9	1.5	-	-	1.5	

By geographical segment

	Turnover		Profit before finance charges		Net operating assets/(liabilities)	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Continuing operations						
United Kingdom	**1,245.0**	1,194.0	**397.4**	358.7	**6,695.6**	6,590.2
Europe	**25.5**	21.6	**5.4**	4.1	**1.4**	1.8
Rest of world	**-**	-	**(0.2)**	-	**(0.8)**	(1.2)
	1,270.5	1,215.6	**402.6**	362.8	**6,696.2**	6,590.8
Discontinued operations						
United Kingdom	**-**	179.9	**1.3**	(20.0)	**-**	-
	1,270.5	1,395.5	**403.9**	342.8	**6,696.2**	6,590.8

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

3. Group operating costs

	2014 £m	2013 Continuing operations £m	2013 Discontinued operations £m	2013 Total £m
Raw materials and consumables	**20.6**	18.2	19.9	38.1
Other operating costs	**365.2**	364.8	97.5	462.3
Staff costs (see note 9)	**184.4**	185.7	62.3	248.0
Change in stocks of finished goods and work in progress	**(0.3)**	0.5	-	0.5
Own work capitalised	**(57.1)**	(62.9)	-	(62.9)
Profit on sale of fixed assets [1]	**(0.9)**	(2.2)	-	(2.2)
Operating costs before depreciation and amortisation	**511.9**	504.1	179.7	683.8
Depreciation of tangible fixed assets	**292.8**	283.2	1.3	284.5
Amortisation of deferred grants and contributions	**(8.8)**	(8.6)	-	(8.6)
Depreciation net of amortisation of deferred grants and contributions	**284.0**	274.6	1.3	275.9
Total before amortisation of intangible assets	**795.9**	778.7	181.0	959.7
Amortisation of intangible assets	**68.7**	68.7	1.1	69.8
Group operating costs	**864.6**	847.4	182.1	1,029.5

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

4. Exceptional items

	2014 £m	2013 £m
Profit/(loss) on disposal of discontinued operations	**1.3**	(17.8)

On 7 November 2012 the group disposed of its Morrison Facilities Services business for a total consideration of £24.0 million, comprising £16.0 million in cash and £8.0 million in Mears Group Plc shares, resulting in a loss on disposal of £17.8 million, after disposal costs and various associated provisions. During the current year, the group sold its holding in the Mears Group Plc shares for £9.3 million, resulting in a profit of £1.3 million.

A tax charge of £0.3 million (2013: £nil) was included in respect of these items.

5. Net interest payable and similar charges

	2014 £m	2013 £m
Interest payable on bank loans and overdrafts	**(0.7)**	(0.7)
Interest payable on other loans including financing expenses	**(321.4)**	(325.1)
Indexation	**(98.6)**	(111.5)
Interest payable on finance leases	**(1.9)**	(2.4)
Amortisation of fair value adjustments	**26.6**	36.0
Group interest and similar charges payable	**(396.0)**	(403.7)
Share of joint venture interest payable	**(1.5)**	(1.5)
Total interest and similar charges payable	**(397.5)**	(405.2)
Group interest receivable	**5.6**	8.6
Net interest payable and similar charges	**(391.9)**	(396.6)
Total		
Group	**(390.4)**	(395.1)
Joint ventures	**(1.5)**	(1.5)

6. Other finance costs (net)

	2014 £m	2013 £m
Unwinding of discount on onerous lease obligation provision (see note 20)	**(0.7)**	(0.7)
Defined benefit pension scheme interest charge (see note 22b)	**(4.0)**	(2.6)
	(4.7)	(3.3)

7. Profit/(loss) on ordinary activities before tax

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

	2014 £m	2013 £m
Profit on disposal of tangible fixed assets	**(0.9)**	(2.2)
Operating lease rentals		
Land and buildings	**10.0**	11.8
Plant and machinery	**0.7**	4.8
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
Owned assets	**277.7**	268.4
Under finance leases	**6.3**	7.5
Amortisation of goodwill - subsidiaries	**68.7**	69.8
Research and development expenditure	**0.1**	0.2

During the year the group obtained the following services from the company's auditors:		
Fees payable to the company's auditors for the audit of the company and the consolidated financial statements	**-**	-
Fees payable to the company's auditors for other services		
The audit of the company's subsidiaries	**0.3**	0.3
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.1**	0.1
Other non-audit services	**0.3**	0.9
	0.8	1.4

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat, and review of the group’s half-year results. Other assurance services relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to the business plan for 2015-2020, system improvements, pensions, IFRS advice and risk management.

8. Taxation

	2014 **£m**	2013 £m
Analysis of credit in the year		
Current tax:		
UK corporation tax - current year	**1.2**	6.3
Adjustment in respect of previous periods	**(0.2)**	-
	1.0	6.3
Foreign tax	**0.7**	0.5
Total current tax charge	**1.7**	6.8
Deferred tax:		
Charge for timing differences arising in year	**20.1**	4.4
Impact of discounting on deferred tax liability	**(13.9)**	(17.8)
Impact of (increase)/decrease in discount rates	**(13.1)**	7.5
Adjustments in respect of previous periods	**(3.6)**	(4.9)
Effect of reduction in corporation tax rate	**(15.3)**	(7.1)
Total deferred tax credit (see note 21)	**(25.8)**	(17.9)
Total tax credit on profit/(loss) on ordinary activities	**(24.1)**	(11.1)

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £13.1 million (2013: charge of £7.5 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 23% to 21% that is effective from 1 April 2014, and to 20% from 1 April 2015, all relevant deferred tax balances have been re-measured. The effect of this 3% (2013: 1%) reduction in corporation tax rates is a credit of £15.3 million (2013: £7.1 million) which reflects a gross credit of £86.4 million (2013: £27.9 million) offset by a discounting charge of £71.1 million (2013: £20.8 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 2014 and 2013, relate to adjustments to prior year capital allowance claims.

In addition to the current tax charge above, a £1.2 million (2013: £6.5 million) credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that 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 equal to (2013: higher than) the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £m	2013 £m
Profit/(loss) on ordinary activities before taxation	**7.3**	(57.1)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 23% (2013: 24%)	**1.7**	(13.7)
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	**20.9**	25.4
Capital allowances for the year in excess of (2013: less than) depreciation	**(10.3)**	3.6
Short-term timing differences	**(9.8)**	(8.0)
Difference in foreign tax rates	**(0.6)**	(0.5)
Adjustments in respect of previous periods	**(0.2)**	-
Current tax charge for the year	**1.7**	6.8

The company is registered in Jersey but is not subject to Jersey income tax and withholding tax, as it is resident in the United Kingdom due to its business being centrally managed and controlled there.

9. Employee information

	2014 £m	2013 £m
Staff costs for the group		
Wages and salaries	**155.4**	212.3
Social security costs	**13.9**	18.4
Pension costs - defined contribution (see note 22)	**5.9**	6.4
Pension costs - defined benefit (see note 22b)	**9.2**	10.9
	184.4	248.0
Total		
Continuing operations	**184.4**	185.7
Discontinued operations	**-**	62.3

Staff costs for the year ended 31 March 2014 include £45.1 million (2013: £48.5 million) of costs that have been capitalised within 'own work capitalised'.

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

	2014	2013
Continuing operations		
Anglian Water	**4,066**	3,931
AWG Property	**11**	11
Other	**223**	203
	4,300	4,145
Discontinued operations		
Morrison Facilities Services	**-**	1,822
	4,300	5,967

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 (2013: 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 £128.8 million (2013: £104.5 million).

11. Dividends

Interim dividends paid during the year

	2014 £m	2013 £m
Paid on:		
10 December 2013	**45.8**	-
10 June 2013	**83.0**	-
7 December 2012	**-**	55.0
8 June 2012	**-**	49.5
	128.8	104.5

In addition, a first interim dividend of £55.0 million in respect of the year ended 31 March 2015 was approved by the board on 23 May 2014 and was paid on 10 June 2014. This dividend has not been included as a liability at 31 March 2014.

12. Intangible assets

	Goodwill £m
The group	
Cost	
At 1 April 2013 and at 31 March 2014	**1,371.5**
Amortisation	
At 1 April 2013	**(436.1)**
Charge for the year	**(68.7)**
At 31 March 2014	**(504.8)**
Net book amount	
At 31 March 2014	**866.7**
At 31 March 2013	935.4

The company

The company has no intangible assets (2013: 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 2013	44.3	3,464.4	3,073.2	601.5	481.3	**7,664.7**
Additions	0.6	-	-	0.3	427.7	**428.6**
Transfers on commissioning	0.7	121.6	250.1	99.9	(472.3)	**-**
Disposals	-	-	-	(0.2)	-	**(0.2)**
Exchange adjustments	-	-	-	(0.1)	-	**(0.1)**
At 31 March 2014	**45.6**	**3,586.0**	**3,323.3**	**701.4**	**436.7**	**8,093.0**
Grants and contributions						
At 1 April 2013	-	(78.7)	-	-	-	**(78.7)**
Additions	-	(14.9)	-	-	2.8	**(12.1)**
At 31 March 2014	**-**	**(93.6)**	**-**	**-**	**2.8**	**(90.8)**
Depreciation						
At 1 April 2013	(3.8)	(517.4)	(769.3)	(350.6)	-	**(1,641.1)**
Charge for the year	(0.4)	(97.3)	(136.9)	(58.2)	-	**(292.8)**
Disposals	-	-	-	0.1	-	**0.1**
Exchange adjustments	-	-	-	0.1	-	**0.1**
At 31 March 2014	**(4.2)**	**(614.7)**	**(906.2)**	**(408.6)**	**-**	**(1,933.7)**
Net book amount						
At 31 March 2014	**41.4**	**2,877.7**	**2,417.1**	**292.8**	**439.5**	**6,068.5**
At 31 March 2013	40.5	2,868.3	2,303.9	250.9	481.3	5,944.9

Tangible fixed assets at 31 March 2014 include land of £25.6 million (2013: £25.1 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:

	2014 £m	2013 £m
Cost	**113.6**	113.6
Aggregate depreciation	**(54.6)**	(48.3)
Net book amount at 31 March	**59.0**	65.3
Depreciation charged in year	**(6.3)**	(7.5)

The company

The company has no tangible fixed assets (2013: none).

14. Investments

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Fixed assets				
Joint ventures (see note a)	**-**	-	**-**	-
Other investments (see note b)	**-**	-	**-**	-
Subsidiary undertakings (see note c)	**-**	-	**1,211.2**	1,211.2
	-	-	**1,211.2**	1,211.2
Current assets				
Listed investments (see note d)	**-**	8.0	**-**	-
Cash deposits (see note e)	**80.9**	129.0	**-**	-
	80.9	137.0	**-**	-

a) Joint ventures

	£m
The group	
Amount under equity method of accounting	
At 1 April 2013	**-**
Result for the year	**0.2**
Amounts offset against trade balances	**(0.2)**
Redemption of preference shares	**(0.5)**
Transfer to provisions (see note 20)	**0.5**
At 31 March 2014	**-**

The result for the year of joint ventures is stated after operating profits of £1.7 million (2013: £1.5 million) less interest payable of £1.5 million (2013: £1.5 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2014.

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 (2013: £nil). The net book value at 31 March 2014 included £nil (2013: £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 2013 and at 31 March 2014	**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.

d) Listed investments

	£m
The group	
Cost	
At 1 April 2013	**8.0**
Disposals	**(8.0)**
At 31 March 2014	**-**

Listed investments comprised equity shares in Mears Group Plc which were received as part of the consideration for the disposal of Morrison Facilities Services. On 25 April 2013 the group sold its holding of shares in Mears Group Plc for a total consideration of £9.3 million.

e) Cash deposits

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet.

15. Stocks

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Raw materials and consumables	**10.8**	10.2	**-**	-
Work in progress	**15.1**	14.8	**-**	-
	25.9	25.0	**-**	-

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

16. Debtors

	Group		Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade debtors	**212.4**	199.5	**-**	-
Amounts owed by joint ventures				
Trade balances	**1.0**	0.6	**-**	-
Loans	**9.8**	11.4	**-**	-
Other debtors	**11.4**	15.8	**-**	-
Prepayments and accrued income	**268.1**	257.1	**-**	-
	502.7	484.4	**-**	-

Prepayments and accrued income as at 31 March 2014 includes water and sewerage income not yet billed of £254.7 million (2013: £243.7 million).

17. Creditors: amounts falling due within one year

	Group		Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Current portion of loans and other borrowings	**67.4**	658.5	**-**	-
Obligations under finance leases	**9.0**	3.9	**-**	-
Short-term borrowings (see note 19)	**76.4**	662.4	**-**	-
Trade creditors	**129.3**	172.0	**-**	-
Receipts in advance	**224.4**	205.7	**-**	-
Amounts owed to joint ventures	**-**	0.5	**-**	-
Other creditors	**5.6**	4.9	**-**	-
Corporation tax	**0.4**	0.6	**-**	-
Other taxation and social security	**3.9**	4.0	**-**	-
Accruals and deferred income	**156.4**	159.3	**-**	-
Deferred grants and contributions	**8.7**	8.5	**-**	-
Other creditors	**528.7**	555.5	**-**	-

Receipts in advance includes £201.2 million (2013: £188.8 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

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

	Group		Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Non-current portion of long-term loans	**7,283.3**	6,866.4	**-**	-
Obligations under finance leases	**44.4**	53.6	**-**	-
Loans and other borrowings (see note 19)	**7,327.7**	6,920.0	**-**	-
Deferred grants and contributions	**134.7**	132.9	**-**	-
Other creditors	**134.7**	132.9	**-**	-

19. Loans, other borrowings and financial instruments

Loans and other borrowings

		Group		Company	
	Notes	**2014 £m**	2013 £m	**2014 £m**	2013 £m
£100 million 12.375% fixed rate 2014	d, g	**-**	103.4	**-**	-
£250 million 5.837% fixed rate 2022	d, g	**260.0**	261.2	**-**	-
£200 million 6.875% fixed rate 2023	d, g	**219.8**	221.8	**-**	-
£200 million 6.625% fixed rate 2029	d, g	**219.6**	220.9	**-**	-
£246 million 6.293% fixed rate 2030	d, g	**270.6**	272.0	**-**	-
£250 million 5.25% fixed rate 2015	b, d, g	**250.6**	250.9	**-**	-
£150 million 5.5% fixed rate 2017/2040 (1)	b, d, f, g	**150.3**	150.4	**-**	-
£150 million 4.125% index-linked 2020	c, d, g	**246.9**	243.4	**-**	-
£75 million 3.666% index-linked 2024	c, d, g	**121.1**	119.2	**-**	-
£200 million 3.07% index-linked 2032	c, d, g	**340.4**	334.9	**-**	-
£60 million 3.07% index-linked 2032	c, d, g	**102.6**	100.9	**-**	-
Finance leases	b, d, g, i	**53.4**	57.5	**-**	-
£150 million index-linked swap 2024	e, g	**49.5**	45.7	**-**	-
£175 million index-linked swap 2030	e, g	**68.8**	64.2	**-**	-
£258 million index-linked swap 2013	e, g	**-**	92.2	**-**	-
€650 million 4.625% fixed rate 2013	a, b, d, g	**-**	454.5	**-**	-
£402 million 2.4% index-linked 2035	c, d, g	**550.1**	536.7	**-**	-
£50 million 1.7% index-linked 2046	c, d, g	**72.9**	71.3	**-**	-
£50 million 1.7% index-linked 2046	c, d, g	**73.1**	71.6	**-**	-
£40 million 1.7146% indexation bond 2056	c, d, g	**61.0**	59.8	**-**	-
£50 million 1.6777% indexation bond 2056	c, d, g	**75.7**	74.1	**-**	-
£60 million 1.7903% indexation bond 2049	c, d, g	**90.7**	88.8	**-**	-
£100 million 1.3784% indexation bond 2057	c, d, g	**129.2**	125.7	**-**	-
£50 million 1.3825% indexation bond 2056	c, d, g	**64.6**	62.8	**-**	-
£100 million Class A wrapped floating rate bonds	d, g	**99.9**	99.9	**-**	-
£100 million index-linked swap 2057	e, g	**28.3**	24.8	**-**	-
£75 million 1.449% indexation bond 2062	c, d, g	**92.1**	89.5	**-**	-
£50 million 1.52% indexation bond 2055	c, d, g	**61.3**	59.6	**-**	-
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	**15.1**	12.8	**-**	-
£110 million Class A unwrapped floating rate bonds 2043	d, g	**109.9**	109.9	**-**	-
£50 million index-linked swap 2043	e, g	**10.2**	8.7	**-**	-
JPY 5 billion 3.22% fixed rate bond 2019/2038	a, b, d, g	**25.0**	25.0	**-**	-
€500 million 6.25% fixed rate bond 2016	a, d, g	**393.4**	393.2	**-**	-
£25 million 6.875% private placements 2034	d, g	**24.6**	24.6	**-**	-
£100 million Class B 6.75% fixed rate bond 2024 (2)	d, g, i	**60.8**	60.7	**-**	-
EIB £50 million 1.626% index-linked term facility 2019	c, d, g	**59.4**	57.7	**-**	-
EIB £50 million 1.3% index-linked term facility 2020	c, g	**58.5**	56.9	**-**	-
£130 million 2.262% indexation bond 2045	c, d, g	**148.3**	144.0	**-**	-
US$160 million 4.52% private placements 2021	a, b, d, g	**98.6**	98.6	**-**	-
£25 million index-linked swap 2061	e, g	**0.3**	-	**-**	-
US$410 million 5.18% private placements 2021	a, b, d, g	**258.9**	258.8	**-**	-
EIB £75 million 0.53% index-linked term facility 2027 (3)	c, d, g	**79.6**	77.4	**-**	-
EIB £75 million 0.79% index-linked term facility 2027 (3)	c, d, g	**79.6**	77.4	**-**	-
£250 million 4.5% fixed rate 2027	d, g	**245.9**	245.6	**-**	-
£15 million 1.37% index-linked private placements 2022	c, d, g	**15.5**	15.0	**-**	-
£50 million 2.05% index-linked private placements 2033	c, d, g	**52.1**	50.6	**-**	-
£25.5 million 4.195% private placements 2017	d, g	**25.3**	25.3	**-**	-
£31.9 million 3.983% private placements 2022	d, g	**31.7**	31.7	**-**	-
Sub-total carried forward		**5,611.1**	6,197.5	**-**	-

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

Loans and other borrowings (continued)

	Notes	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Sub-total brought forward		**5,611.1**	6,197.5	**-**	-
£73.3 million 4.394% private placements 2028	d, g	**73.1**	73.1	**-**	-
£22.3 million 3.983% private placements 2022	d, g	**22.1**	22.1	**-**	-
US$47 million 5% private placements 2022	a, b, d, g	**29.8**	29.7	**-**	-
EIB £150 million 0% index-linked term facility 2028 [4]	c, d, g	**154.7**	150.4	**-**	-
£200 million Class B 4.5% fixed rate 2026	b, d, g	**197.3**	197.4	**-**	-
£35 million 1.141% index-linked bond 2042	c, d, g	**35.6**	-	**-**	-
US$170 million 3.84% private placements 2023	a, b, d, g	**109.6**	-	**-**	-
£93 million 3.537% private placements 2023	d, g	**92.5**	-	**-**	-
US$160 million 4.99% private placements 2023	a, b, d, g	**99.3**	-	**-**	-
EIB £65 million 0.41% index-linked term facility 2029 [5]	c, d, g	**64.9**	-	**-**	-
£100 million term facility	b, d, h	**98.3**	97.4	**-**	-
£350 million Class B 7.0% fixed rate bond 2018	d, h	**346.0**	345.0	**-**	-
Loan notes	i	**0.9**	1.4	**-**	-
£462 million 10% unsecured loan notes 2018	d	**461.6**	461.4	**-**	-
Other loans	i	**7.3**	7.0	**-**	-
Total loans and other borrowings		**7,404.1**	7,582.4	**-**	-
Included in:					
Creditors falling due within one year		**76.4**	662.4	**-**	-
Loans and other borrowings due after more than one year		**7,327.7**	6,920.0	**-**	-

[1] The coupon for this instrument will increase to floating rate three 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.

[2] The basis for this instrument will change from fixed rate to floating rate three 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 on each interest payment date thereafter. During the year to 31 March 2013 the group undertook a tender offer on the bond and redeemed and cancelled £39.1 million bonds of this instrument. Subsequent to the year-end, the outstanding bonds of this instrument were redeemed at par on 11 June 2014.

[3] These instruments are amortising from 2017 until the date of maturity shown.

[4] This instrument is amortising from 2018 until the date of maturity shown.

[5] This instrument is amortising from 2019 until the date of maturity shown.

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

Loans and other borrowings (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 £32.9 million (2013: £(16.2) million), the adjustment to the Euro borrowings is £(18.8) million (2013: £(123.0) million) and the adjustment to the Japanese Yen borrowings is £(25.3) million (2013: £(48.7) 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 £73.1 million (2013: £71.8 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 seven (2013: seven) 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 £25.5 million (2013: £39.7 million) has been taken to the profit and loss account as part of interest payable.

(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 2014 this charge applies to £6,490.0 million (2013: £6,670.2 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 2014 this charge applies to £444.3 million (2013: £442.4 million) of the debt listed above.

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

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 2014				
Less than one year	67.4	9.0	8.5	**84.9**
Between one and two years	348.9	4.9	7.1	**360.9**
Between two and five years	1,275.3	17.0	11.0	**1,303.3**
After five years	5,659.1	22.5	28.7	**5,710.3**
	7,350.7	**53.4**	**55.3**	**7,459.4**
At 31 March 2013				
Less than one year	658.5	3.9	8.1	670.5
Between one and two years	60.7	8.9	8.0	77.6
Between two and five years	1,127.2	15.5	11.1	1,153.8
After five years	5,678.5	29.2	25.5	5,733.2
	7,524.9	57.5	52.7	7,635.1

The group analysis is net of issue costs of £35.1 million (2013: £36.6 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 5).

Other financial liabilities comprise provisions of £55.3 million (2013: £52.7 million).

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

	2014		2013	
	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	**61.7**	**7,316.8**	651.5	6,903.0
Debt issue costs	**-**	**(35.1)**	-	(36.6)
Obligations under finance leases	**9.0**	**44.4**	3.9	53.6
Other loans	**5.7**	**1.6**	7.0	-
	76.4	**7,327.7**	662.4	6,920.0

Borrowing facilities

	2014 £m	2013 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	**375.0**	365.0
Expiring between one and two years	**25.0**	-
Expiring between two and five years	**420.0**	445.0
	820.0	810.0

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

Financing structure

The group's regulated water and water recycling 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 2014 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 79.6% (2013: 79.5%).

The group has also raised finance within Osprey Holdco Limited, Osprey Acquisitions Limited and Anglian Water (Osprey) Financing Plc.

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

	2014		2013	
	Book value £m	**Fair value [1] £m**	Book value £m	Fair value [1] £m
Cash at bank and in hand (including short-term deposits)	**660.4**	**660.4**	1,027.4	1,027.4
Cash deposits	**80.9**	**80.9**	129.0	129.0
Short-term borrowings	**(76.4)**	**(75.6)**	(664.8)	(686.8)
Long-term borrowings	**(7,164.2)**	**(7,902.9)**	(6,853.4)	(7,721.9)
Interest rate swaps	**8.8**	**12.9**	184.2	184.8
Index-linked swaps	**(172.3)**	**(575.9)**	(248.4)	(717.9)
Net debt	**(6,662.8)**	**(7,800.2)**	(6,426.0)	(7,785.4)
Listed investments	**-**	**-**	8.0	9.6
Energy hedging instruments	**-**	**(16.7)**	-	(3.2)
Provisions excluding deferred tax and joint venture net liabilities (see note 20)	**(55.3)**	**(93.9)**	(52.7)	(104.8)
	(6,718.1)	**(7,910.8)**	(6,470.7)	(7,883.8)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £116.4 million (2013: £120.3 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 listed current asset investments represents the market value of the equity shares.

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 2014. 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 2014. 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

			2014			2013
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised at the beginning of the year	102.1	(626.3)	**(524.2)**	113.5	(480.6)	(367.1)
Reversal of items unrecognised at the beginning of the year	(7.6)	113.9	**106.3**	(1.2)	-	(1.2)
Recognised during the year	(44.7)	87.2	**42.5**	(49.9)	72.2	22.3
Arising during the year	18.7	(98.1)	**(79.4)**	39.7	(217.9)	(178.2)
Unrecognised at 31 March	**68.5**	**(523.3)**	**(454.8)**	102.1	(626.3)	(524.2)

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 £454.8 million (2013: £524.2 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 2014.

Of the unrecognised gains and losses at 31 March 2014, a net gain of £35.7 million (2013: £34.4 million) is expected to be included in the profit and loss account for the year ended 31 March 2015 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 2014							
Total borrowings							
Sterling [1]	**(7,404.1)**	(3,574.1)	(558.3)	(3,271.7)	-	**6.8%**	**8.4**
Cash and cash deposits							
Sterling	**734.2**	-	734.2	-	-		
Euro	**7.0**	-	7.0	-	-		
Other currencies	**0.1**	-	0.1	-	-		
Net debt	**(6,662.8)**	(3,574.1)	183.0	(3,271.7)	-		
Provisions	**(55.3)**	-	-	-	(55.3)		
Net financial assets/(liabilities)	**(6,718.1)**	**(3,574.1)**	**183.0**	**(3,271.7)**	**(55.3)**		
At 31 March 2013							
Total borrowings							
Sterling [1]	(7,582.4)	(3,722.0)	(675.9)	(3,184.5)	-	7.1%	9.0
Cash and cash deposits							
Sterling	1,149.9	-	1,149.9	-	-		
Euro	5.5	-	5.5	-	-		
Other currencies	1.0	-	1.0	-	-		
Net debt	(6,426.0)	(3,722.0)	480.5	(3,184.5)	-		
Listed investments	8.0	-	-	-	8.0		
Provisions	(52.7)	-	-	-	(52.7)		
Net financial assets/(liabilities)	(6,470.7)	(3,722.0)	480.5	(3,184.5)	(44.7)		

[1] The underlying currencies of borrowings as set out in the table of loans and other borrowings on pages 66 and 67 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 cash deposits 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	Joint venture net liabilities £m	Total £m
The group							
At 1 April 2013	61.4	26.2	21.9	4.0	0.6	-	**114.1**
Charge/(credit) for the year	(32.7)	5.5	4.6	(0.8)	-	-	**(23.4)**
Transfer from investments	-	-	-	-	-	0.5	**0.5**
Unwinding of discount	-	0.7	-	-	-	-	**0.7**
Utilised in the year	-	(6.9)	-	(0.5)	-	-	**(7.4)**
At 31 March 2014	**28.7**	**25.5**	**26.5**	**2.7**	**0.6**	**0.5**	**84.5**

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 ten 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 £0.4 million (2013: £0.4 million), which are expected to crystallise over a period of approximately two years and £0.2 million (2013: £0.2 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately one year.

The provision for joint venture liabilities represents the aggregate amount of net liabilities in joint ventures at the balance sheet date. The amounts have been transferred from investments in order to separate the gross amounts of investments with net liabilities from those with net assets as prescribed in the accounting policy note 1(b). Movements in the group's share of joint venture assets and liabilities are disclosed in note 14.

The company
The company has no provisions for liabilities (2013: none).

21. Deferred tax

The group

The total tax credit 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 £59.5 million.

	£m
At 1 April 2013	**61.4**
Deferred tax credited to the profit and loss account	**(25.8)**
Less amounts included elsewhere in the balance sheet:	
Deferred tax charged in respect of movements in the deferred tax asset on pension liabilities	**(6.9)**
At 31 March 2014	**28.7**

	2014 £m	2013 £m
Accelerated capital allowances	**661.3**	749.0
Short-term timing differences	**(69.2)**	(84.1)
Surplus ACT asset	**(142.5)**	(142.5)
Undiscounted provision for deferred tax	**449.6**	522.4
Discount	**(420.9)**	(461.0)
Discounted provision for deferred tax	**28.7**	61.4
Deferred tax asset on pension liability (see note 22)	**(12.2)**	(19.8)
Total deferred tax liability included in the balance sheet	**16.5**	41.6
The following are deferred tax assets that are not recognised in the accounts		
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**1.6**	1.8
	24.4	24.6

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 (2013: none).

22. Pension commitments

Pension arrangements for just under half of the group's employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS') 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.

During the year ended 31 March 2013, the Morrison Facilities Pension Scheme ('MFPS'), together with the group's share of various Local Government Pension Schemes, were disposed of as part of sale of the Morrison Facilities Services business.

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 was completed for AWGPS, and as at 1 April 2011 for MPLAP, the results of which have been used as a basis for the FRS 17 disclosures as at 31 March 2014.

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.

The group contributed 12.5% (2013: 12.5%) of pensionable pay plus £22.7 million (2013: £21.6 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.5 million (2013: £5.6 million) during the year. In the year to 31 March 2015, employers' contributions are expected to be £38.6 million.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £5.9 million (2013: £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:

	2014 % pa	2013 % pa
Discount rate	**4.3**	4.3
Inflation rate		
RPI	**3.4**	3.4
CPI	**2.4**	2.6
Increase to deferred benefits during deferment		
RPI	**3.4**	3.4
CPI	**2.4**	2.6
Increases to inflation related pensions in payment [1]		
RPI	**3.3**	3.3
CPI	**2.4**	2.6
General salary increases [2]	**2.5 / 4.4**	2.5 / 4.4

	2014 years	2013 years
Longevity at age 65 for current pensioners		
Men	**23.1**	23.1
Women	**25.4**	25.3
Longevity at age 65 for future pensioners [3]		
Men	**24.9**	24.9
Women	**27.4**	27.3

[1] For RPI pension increases capped at 5% per annum.

[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 (4.4% per annum) and RPI price inflation (3.4% per annum) are both above 2.5% per annum at 31 March 2014, 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 2034.

22. Pension commitments (continued)

b) Amounts recognised in profit or loss

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2014				
Amount charged to staff costs within operating profit				
Current service cost	(8.7)	(0.2)	-	**(8.9)**
Loss on settlement	-	(0.3)	-	**(0.3)**
Total operating charge (see note 9)	**(8.7)**	**(0.5)**	**-**	**(9.2)**
Amount (charged)/credited to other finance income				
Expected return on pension scheme assets	46.2	9.4	-	**55.6**
Impact of restriction on surplus	-	(0.1)	-	**(0.1)**
Interest on pension scheme liabilities	(48.4)	(9.1)	(2.0)	**(59.5)**
Net (charge)/return (see note 6)	**(2.2)**	**0.2**	**(2.0)**	**(4.0)**
Total charge to profit on ordinary activities before taxation	**(10.9)**	**(0.3)**	**(2.0)**	**(13.2)**
2013				
Amount charged to staff costs within operating profit				
Current service cost	(8.0)	(2.6)	-	(10.6)
Loss on settlement	-	(0.3)	-	(0.3)
Total operating charge	(8.0)	(2.9)	-	(10.9)
Amount (charged)/credited to other finance income				
Expected return on pension scheme assets	47.7	13.4	-	61.1
Impact of restriction on surplus	-	(0.5)	-	(0.5)
Interest on pension scheme liabilities	(48.3)	(12.8)	(2.1)	(63.2)
Net (charge)/return	(0.6)	0.1	(2.1)	(2.6)
Total charge to profit on ordinary activities before taxation	(8.6)	(2.8)	(2.1)	(13.5)

The actual return on scheme assets was a gain of £45.4 million (2013: £122.0 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
2014				
Actual return on pension scheme assets less expected return	(6.0)	(4.2)	-	**(10.2)**
Changes in assumptions underlying the present value of the scheme liabilities	12.3	2.5	0.8	**15.6**
Changes in amounts not recognised in the balance sheet	-	(5.2)	-	**(5.2)**
Total gain/(loss) recognised	**6.3**	**(6.9)**	**0.8**	**0.2**
2013				
Actual return on pension scheme assets less expected return	49.5	11.4	-	60.9
Changes in assumptions underlying the present value of the scheme liabilities	(95.7)	(22.7)	(2.5)	(120.9)
Changes in amounts not recognised in the balance sheet	-	4.2	-	4.2
Total loss recognised	(46.2)	(7.1)	(2.5)	(55.8)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £236.9 million (2013: £237.1 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
2014					
Equities	6.4	269.3	84.8	-	**354.1**
Corporate bonds	4.1	496.9	52.2	-	**549.1**
Government bonds	3.4	239.7	47.3	-	**287.0**
Property	5.4	68.9	1.0	-	**69.9**
Alternatives	5.4	3.1	31.9	-	**35.0**
Other	0.5	58.4	8.2	-	**66.6**
Total assets		1,136.3	225.4	-	**1,361.7**
Present value of scheme liabilities		(1,150.2)	(210.6)	(45.9)	**(1,406.7)**
Amounts not recognised (1)		-	(16.0)	-	**(16.0)**
Deficit in the schemes		(13.9)	(1.2)	(45.9)	**(61.0)**
Related deferred tax asset		2.8	0.2	9.2	**12.2**
Net pension liability		**(11.1)**	**(1.0)**	**(36.7)**	**(48.8)**
Comprising:					
Pension schemes with net liabilities		(11.1)	(1.0)	(36.7)	**(48.8)**
2013					
Equities	6.0	300.5	79.1	-	379.6
Corporate bonds	4.0	443.8	32.7	-	476.5
Government bonds	3.0	219.3	64.7	-	284.0
Property	5.0	50.1	0.4	-	50.5
Alternatives	5.0	23.8	38.7	-	62.5
Other	0.5	62.3	13.0	-	75.3
Total assets		1,099.8	228.6	-	1,328.4
Present value of scheme liabilities		(1,138.3)	(218.1)	(47.5)	(1,403.9)
Amounts not recognised (1)		-	(10.7)	-	(10.7)
Deficit in the schemes		(38.5)	(0.2)	(47.5)	(86.2)
Related deferred tax asset		8.9	-	10.9	19.8
Net pension liability		(29.6)	(0.2)	(36.6)	(66.4)
Comprising:					
Pension schemes with net liabilities		(29.6)	(0.2)	(36.6)	(66.4)

(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
2014				
At 1 April 2013	1,099.8	228.6	-	**1,328.4**
Expected return on scheme assets	46.2	9.4	-	**55.6**
Employers' contributions	29.2	6.2	2.8	**38.2**
Members' contributions	3.8	-	-	**3.8**
Benefits paid	(36.7)	(5.8)	(2.8)	**(45.3)**
Settlements	-	(8.8)	-	**(8.8)**
Actuarial loss	(6.0)	(4.2)	-	**(10.2)**
At 31 March 2014	**1,136.3**	**225.4**	**-**	**1,361.7**
2013				
At 1 April 2012	1,004.7	331.8	-	1,336.5
Expected return on scheme assets	47.7	13.4	-	61.1
Employers' contributions	29.4	8.3	2.7	40.4
Members' contributions	4.0	0.5	-	4.5
Benefits paid	(35.5)	(8.1)	(2.7)	(46.3)
Settlements	-	(7.5)	-	(7.5)
Actuarial gain	49.5	11.4	-	60.9
Disposal of subsidiary undertakings	-	(121.2)	-	(121.2)
At 31 March 2013	1,099.8	228.6	-	1,328.4

f) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2014				
At 1 April 2013	(1,138.3)	(218.1)	(47.5)	**(1,403.9)**
Current service cost	(8.7)	(0.2)	-	**(8.9)**
Interest cost	(48.4)	(9.1)	(2.0)	**(59.5)**
Members' contributions	(3.8)	-	-	**(3.8)**
Benefits paid	36.7	5.8	2.8	**45.3**
Settlements	-	8.5	-	**8.5**
Actuarial gain	12.3	2.5	0.8	**15.6**
At 31 March 2014	**(1,150.2)**	**(210.6)**	**(45.9)**	**(1,406.7)**
2013				
At 1 April 2012	(1,017.8)	(317.3)	(45.6)	(1,380.7)
Current service cost	(8.0)	(2.6)	-	(10.6)
Interest cost	(48.3)	(12.8)	(2.1)	(63.2)
Members' contributions	(4.0)	(0.5)	-	(4.5)
Benefits paid	35.5	8.1	2.7	46.3
Settlements	-	7.2	-	7.2
Actuarial loss	(95.7)	(22.7)	(2.5)	(120.9)
Disposal of subsidiary undertakings	-	122.5	-	122.5
At 31 March 2013	(1,138.3)	(218.1)	(47.5)	(1,403.9)

22. Pension commitments (continued)

g) History of schemes

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Deficit at 31 March					
Fair value of scheme assets	**1,361.7**	1,328.4	1,336.5	1,271.8	1,158.5
Present value of scheme liabilities	**(1,406.7)**	(1,403.9)	(1,380.7)	(1,329.0)	(1,361.4)
Amounts not recognised	**(16.0)**	(10.7)	(11.9)	(26.5)	2.0
Deficit in the schemes	**(61.0)**	(86.2)	(56.1)	(83.7)	(200.9)
Related deferred tax asset	**12.2**	19.8	13.5	21.8	56.3
Net pension liability	**(48.8)**	(66.4)	(42.6)	(61.9)	(144.6)
History of experience gains and losses					
Actual return on pension scheme assets less expected return	**(10.2)**	60.9	29.3	31.0	158.3
Experience gains and losses arising on scheme liabilities	**-**	-	33.5	15.6	(21.3)
Changes in assumptions underlying the present value of the scheme liabilities	**15.6**	(120.9)	(133.3)	72.2	(253.3)
Changes in amounts not recognised in the balance sheet	**(5.2)**	4.2	20.2	(28.5)	(1.6)
Amount recognised in the statement of total recognised gains and losses	**0.2**	(55.8)	(50.3)	90.3	(117.9)

23. Share capital

	Group and Company	
	2014 £m	2013 £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 2013	-	1,096.2	(997.4)	**98.8**
Profit for the financial year	-	-	29.0	**29.0**
Actuarial gain/(loss) recognised on the pension schemes	-	-	0.2	**0.2**
Current tax relating to the actuarial gain/(loss) on the pension schemes	-	-	1.2	**1.2**
Deferred tax relating to the actuarial gain/(loss) on the pension schemes	-	-	(1.2)	**(1.2)**
Impact of change in tax rate on deferred tax on pension schemes	-	-	0.5	**0.5**
Currency translation differences on foreign currency net investments	-	-	0.1	**0.1**
Total recognised gains and losses relating to the year	-	-	29.8	**29.8**
Dividends paid	-	-	(128.8)	**(128.8)**
At 31 March 2014	**-**	**1,096.2**	**(1,096.4)**	**(0.2)**

The company

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2013	-	1,096.2	115.0	**1,211.2**
Profit for the financial year	-	-	128.8	**128.8**
Dividends paid	-	-	(128.8)	**(128.8)**
At 31 March 2014	**-**	**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 2014.

	2014 £m	2013 £m
Contracted for but not provided in the financial statements	**113.1**	186.2

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

The company

The company has no such commitments (2013: none).

26. Commitment under operating leases

At 31 March 2014 the group had annual commitments under non-cancellable operating leases expiring:

	2014		2013	
	Land and buildings £m	**Plant and machinery £m**	Land and buildings £m	Plant and machinery £m
Within one year	**0.2**	**0.4**	0.2	0.4
Within two and five years	**6.5**	**0.2**	3.2	0.5
After five years	**4.6**	**-**	7.6	-
	11.3	**0.6**	11.0	0.9

The company

The company has no such commitments (2013: 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 £7.2 million (2013: £7.2 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 2014, the group had £142.5 million (2013: £142.5 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.

In December 2011, 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 served a written response to Ofwat's Statement of Objections refuting the allegations in April 2012. In September 2012 we attended an oral hearing at which we made further representations to Ofwat. On 11 July 2013, we attended a further meeting with Ofwat which was convened by Ofwat in order to enable to share its latest thinking in relation to the investigation. On 2 September 2013, we submitted a response to Ofwat in relation to the issues raised in the course of the 11 July meeting. On 25 April 2014 Ofwat issued a Supplementary Statement of Objections and a press release to say that further investigation is required before a decision could be taken, but gave no indication of when this process would be concluded. Anglian Water is required to respond to the Supplementary Statement of Objections by 19 July 2014. If Ofwat ultimately rule against Anglian Water, the matter is expected to be immaterial in the context of our overall business.

As is normal for a company of this size and nature it is subject to a number of other claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items 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, IFM Investors, 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 2014 the amount outstanding was £462.0 million (2013: £462.0 million). Interest of £11.2 million (2013: £11.2 million) has been accrued but not paid on these loan notes.

During the year to 31 March 2014, Anglian Water Services Financing Plc issued three 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 US$170 million and £93 million private placements were issued in conjunction with Barclays, and the US$160 million private placement with BNP Paribas. The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 20 and 32.5 basis points on the whole amount of these transactions, equating to a total of US$1,146,000.

During the year to 31 March 2013, Anglian Water Services Financing Plc increased its borrowing facilities through the Commonwealth Bank of Australia. The Commonwealth Bank of Australia earned fees of £187,500, which were agreed on normal commercial terms, for this transaction.

During the year to 31 March 2014 there were no other transactions, other than £128.8 million of dividends, (2013: none other than £104.5 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 £0.6 million (2013: £0.5 million) was earned, and the group repaid £0.2 million (2013: £nil) as part of this scheme. At 31 March 2014 £5.7 million (2013: £5.3 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 £0.2 million (2013: £0.4 million).

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:

	2014 £m	2013 £m
Sale of goods/services	**1.2**	-

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

Year-end balances arising from sales of goods/services

	2014		2013	
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m
Joint ventures with AWG Property	**1.0**	**-**	0.6	(0.5)

Loans to related parties

	At 1 April £m	**Increase/ (decrease) during the year £m**	**At 31 March £m**
Year ended 31 March 2014			
Joint ventures with AWG Property	**11.4**	**(1.6)**	**9.8**
Year ended 31 March 2013			
Joint ventures with AWG Property	11.3	0.1	11.4

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 2014 are shown below.

	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 water recycling 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
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 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.

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

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit 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.

This opinion is to be read in the context of what we say below.

What we have audited

The group and parent company financial statements for the year ended 31 March 2014, which are prepared by Anglian Water Group Limited, comprise:

- group and company balance sheets as at 31 March 2014;
- group profit and loss account and group statement of total recognised gains and losses for the year then ended;
- group cash flow statement for the year then ended;
- group statement of movement in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). 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 the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities (set out on page 3), 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

16 July 2014