

# Anglian Water Services Limited

(Registered number 2366656)

## Annual report and financial statements

For the year ended 31 March 2011

SATURDAY



\*AM5NOWGO\*

A26

06/08/2011

186

COMPANIES HOUSE

## Winter 2010/11

We maintained supplies  
to our customers in  
the worst winter for  
100 years

## £2.3bn

Year one of investment  
period AMP5 2010/2015  
We are investing  
£2.3 billion in our region

## £15m

We delivered £15 million  
in sustainable operational  
efficiencies this year

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# ANGLIAN WATER AT A GLANCE

## Serving our customers

### AIMING FOR 100% CUSTOMER SATISFACTION

61 million water and wastewater customers rely on us

Over 125,000 businesses depend on our water supply

Contact centres in Huntingdon, Lincoln and Hartlepool

Tariffs to support our more vulnerable customers

### Investing:

**£94 MILLION\***

to enhance levels of customer service

### P38

Read more about our focus on delivering excellent customer service

## Investing for the future


Investing:  
a total of  
**£23 BILLION\***

**£588 MILLION\***

meeting the needs of our growing region

**£1,224 MILLION\***

to maintain the region's water and wastewater infrastructure

 P26 to 27 and 33  
Read more

## Safe drinking water is our priority


24 hours a day, 365 days a year 135 water treatment works, treating, monitoring and safeguarding public drinking water


Supplying 12 billion litres of world-class water every day through over 37,500 kilometres of water mains

Managing demand to meet the needs of a 20% increase in population in our region since 1990

20 years with no hosepipe ban

Overall drinking water compliance for 2010 99.96%

 P28  
Find out about how we value our most precious resource

 P34  
Read more about achieving excellent water quality


## Sustainable collection and treatment of wastewater

Every day **950 million litres** of wastewater is flushed through 45,000 kilometres of sewers to our 1,119 wastewater treatment works

Aiming for no serious pollution incidents

Our environment stewardship initiatives focus on healthy water and nutrient cycles and learning from nature

Recycling waste products for fuel and fertiliser

 P36  
Read more about our wastewater services

\*to 2015 in 2007/08 prices

**Protecting the environment**

Committed to reducing operational and embodied carbon

We're responsible for 47 Sites of Special Scientific Interest

We've agreed our Biodiversity Action Plan to 2020 and published an award-winning biodiversity guide

**P56**  
Read more about how we protect the environment

**Welcoming visitors to our water parks**

Sailing, cycling, walking, picnicking, fishing, wildlife watching

Access across our **10 water parks** includes wide pathways, purpose-built boats, ramps and lifts and a sensory garden

Events like the Great East Swim, Europe's largest Birdfair, and open-air theatre help attract **over two million visitors** every year

**P42**  
Read more about how we welcome visitors to our big back garden

**Valuing our partners: the big picture**

Building valuable relationships regionally and nationally is central to our way of working, bringing together and working with leaders and organisations from our communities and the world of politics, regulation, land use, business and science

We're taking the next big step forward for water stewardship in partnership with the University of Cambridge Sustainable Leadership Programme

**P53**  
Find out more and link to the report

**Working for our region**

Our infrastructure underpins development across the east of England

**3,700**  
direct employees

**7,000**  
contractors and partners based in our region

Around **£100 MILLION** a year to the regional economy in salaries alone

**P60**  
Read more

# CHAIRMAN'S WELCOME

Welcome to the Anglian Water Services Annual Report for the year ended 2010/11.

On a global scale, the events of the last year in New Zealand, Japan and the southern states of America have reminded the developed world shockingly and repeatedly of the unpredictability of nature and of our reliance on the fundamental infrastructure delivering humanity's most basic needs: warmth, shelter, safe drinking water and adequate sanitation.

Here in the UK over the next 30 years we will face unprecedented increases in demand for water, food and energy, and the region we serve in the east of England will be among the first to feel the impacts of global climate change.

Anglian Water has a consistent and hard-won record as a leading performer in the water industry. In an imaginative and visionary response to the challenges of the future, the company has set out its clear intention to redefine the role of the water utility company in the 21st century. Crucially, the energy and vision behind this industry-first campaigning leadership platform, Love Every Drop, launched in October 2010, supports the company's investment in excellence with a business model that will transform Anglian Water from regional water utility to a leading UK public service business.

Peter Simpson took over as Managing Director early in 2010. This first full year of his leadership has been one of considerable challenge and change. The strong financial results and the excellent operational performance demonstrate the underlying strength and capability of the company as it faces up to the big challenges.

**Sir Adrian Montague CBE, Chairman**

*"We can look forward to the future with confidence."*

# PERFORMANCE HIGHLIGHTS 2010/11

BUSINESS REVIEW

## The harshest winter since records began

December temperatures averaged -1°C across the UK, and were often considerably lower in the east of England. The north of our region was particularly badly affected, with temperatures in Lincolnshire at times dropping below -20°C

Our priorities - minimising service interruptions and focusing on maintaining supplies to our customers

- **Invested** an additional £4 million
- **Deployed** twice the usual number of technicians and contractors
- **Reduced** target response times for burst mains from **seven to three days**

Read more  P28

## Recognising our contribution to the community

We have achieved the highest ranking of **Platinum Plus** in **Business in the Community's 2011 Corporate Responsibility Index (CRI)**, the UK's leading voluntary benchmark of corporate responsibility.

Platinum Plus evaluates the extent to which commercial business strategy is underpinned by planning for long-term sustainability around five indicators - business strategy, environmental strategy, social impact, economic impact and sector leadership

Read more  P46 and 52

## Safety at work

Our record on health and safety has won recognition from **The Royal Society for the Prevention of Accidents (RoSPA)** with two **Gold awards** this year

- **Confirming** our 2010/11 performance
- **Rewarding** our sustained performance over the past five years

Read more  P63

## Customer service

Ofwat introduced their new industry-wide measure, based on customer satisfaction, the **Service Incentive Mechanism (SIM)**.

- **Improved** our results every quarter
- **SIM score:** average for the year 4.15 out of 5
- **Ranked second** amongst the Water and Sewerage Companies for the last quarter and fourth for the whole year
- **Implementing** programme of continuous service improvements

Read more  P38 to 42

## Excellent performance on wastewater compliance

The severe cold followed by the extended dry spell throughout the spring put significant pressure on our wastewater operations. Performance at our wastewater treatment works remained high

- **Best ever year** for bathing water guideline compliance - **20** beaches across our region will fly the coveted Blue Flag in 2011 (2010 15)
- **Lowest ever number** of serious unconsented pollution incidents (category one and two), down from eight in 2009 to two in the calendar year 2010

Read more  P56

## Looking to the future

In October 2010 we launched **Love Every Drop**, a visionary, long-term campaign aimed at fundamentally changing society's relationship with water. It's a compelling and pioneering leadership platform, inspiring colleagues, customers, regulators and key stakeholders to work with us to achieve our business goals

**10** goals    **100** targets and commitments

Read more  P17 to 19

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# KEY PERFORMANCE INDICATORS (KPIs)

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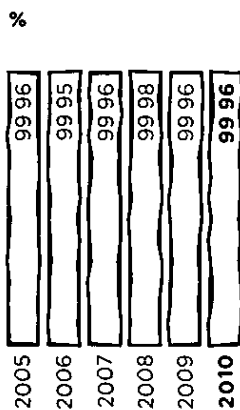
REGULATORY ACCOUNTS

## Operational

### Drinking water quality<sup>1</sup>

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



Our drinking water quality continues to be excellent

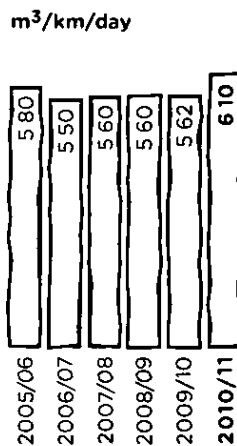
**P34 to 36**  
Read more about water quality initiatives

**Download our Drinking Water Quality Report at [www.anglianwater.co.uk/dwq](http://www.anglianwater.co.uk/dwq)**

### Leakage<sup>2</sup>

Cubic metres of water lost per kilometre of main per day

Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average



Industry average 2009/10

**10.9** m<sup>3</sup>/km/day

This year's figure reflects our commitment to maintaining water supplies to homes and businesses in the severe winter weather. Leakage levels quickly returned to below seasonal levels and remain amongst the lowest in our sector

**P28**  
Read more

### Service Incentive Mechanism (SIM)

Ofwat's new measure, focusing on customer service. Scored out of 5

We welcome the SIM and are committed to continually improving our customer service

Scored out of 5



**NEW MEASURE**

Our satisfaction score improved in each quarter of 2010/11. We ranked second in the fourth quarter

**P38**  
Read more about meeting the needs of our customers

## Environmental

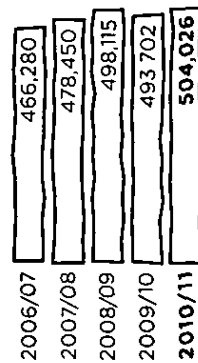
### Carbon footprint

CO<sub>2</sub> emissions equivalent in tonnes CO<sub>2</sub>e

This key measure helps us

- Manage our environmental impact
- Deliver cost savings

Tonnes CO<sub>2</sub>e



Our longer term aspiration is a

**50%** reduction in emissions by 2035 from a 2010 baseline

The increase this year is directly attributable to a significant increase in the volume of water treated and pumped during the harsh winter period

**P48 to 51**  
Read more about our carbon goals

## Our performance

## Our 2010/11 performance in context



Financial		Employees																																																					
<p><b>Capital expenditure £m</b></p> <p>Total spend from 1 April 2010 to 31 March 2011, increased by construction-related inflation</p>	<p><b>Operating expenditure £m<sup>4</sup></b></p> <p>Operating costs (excluding depreciation and exceptional operating costs) incurred during the year</p>	<p><b>Accident frequency rate</b></p> <p>Number of accidents per 100,000 hours worked Data includes both direct employees and key contractors</p>	<p><b>CHaSPI<sup>6</sup></b></p> <p>The Health and Safety Executive (HSE) corporate performance index Scored out of 10</p>																																																				
<b>How this KPI relates to our strategy</b>																																																							
Total investment delivered so far in this five-year asset management period	The cost of running Anglian Water operations and achieving our objectives	Indicates how safely we work	Aims to help assess how well an organisation manages health and safety risks and responsibilities towards its workers, the public and other stakeholders																																																				
<b>Our performance</b>																																																							
<p><b>One year to March 2011</b></p> <p>£m</p> <table border="1"> <tr><th>Category</th><th>Value (£m)</th></tr> <tr><td>Determination<sup>1</sup></td><td>347</td></tr> <tr><td>Actual</td><td>292</td></tr> </table>	Category	Value (£m)	Determination <sup>1</sup>	347	Actual	292	<p><b>£m</b></p> <table border="1"> <tr><th>Year</th><th>Value (£m)</th></tr> <tr><td>2005/06</td><td>314.4</td></tr> <tr><td>2006/07</td><td>324.7</td></tr> <tr><td>2007/08</td><td>331.2</td></tr> <tr><td>2008/09</td><td>363.5</td></tr> <tr><td>2009/10</td><td>386.1</td></tr> <tr><td>2010/11</td><td>405.2</td></tr> <tr><td>Determination<sup>2</sup></td><td>396.3</td></tr> <tr><td>Actual</td><td>396.3</td></tr> </table>	Year	Value (£m)	2005/06	314.4	2006/07	324.7	2007/08	331.2	2008/09	363.5	2009/10	386.1	2010/11	405.2	Determination <sup>2</sup>	396.3	Actual	396.3	<p><b>Accidents per 100,000 hours worked</b></p> <table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>2005/06</td><td>0.39</td></tr> <tr><td>2006/07</td><td>0.39</td></tr> <tr><td>2007/08</td><td>0.37</td></tr> <tr><td>2008/09</td><td>0.39</td></tr> <tr><td>2009/10</td><td>0.37</td></tr> <tr><td>2010/11</td><td>0.31</td></tr> </table>	Year	Value	2005/06	0.39	2006/07	0.39	2007/08	0.37	2008/09	0.39	2009/10	0.37	2010/11	0.31	<p><b>Scored out of 10</b></p> <table border="1"> <tr><th>Year</th><th>Score</th></tr> <tr><td>2005/06</td><td>71</td></tr> <tr><td>2006/07</td><td>73</td></tr> <tr><td>2007/08</td><td>74</td></tr> <tr><td>2008/09</td><td>77</td></tr> <tr><td>2009/10</td><td>77</td></tr> <tr><td>2010/11</td><td>78</td></tr> </table>	Year	Score	2005/06	71	2006/07	73	2007/08	74	2008/09	77	2009/10	77	2010/11	78
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<b>Our 2010/11 performance, in context</b>																																																							
<p>Lower than assumed due to</p> <ul style="list-style-type: none"> <li>Higher efficiencies</li> <li>Reduced demand for new connections</li> <li>New project appraisal processes</li> </ul> <p><b>P68</b> Read more about Finance</p>	<p>Up 2.7% on 2009/10, principally due to inflationary pressures on costs Opex lower than FD due to focused efficiency initiatives and lower power costs partially offset by a higher bad debt charge than anticipated in the FD</p> <p>2% outperformance relative to Determination</p>	<p>Nothing is more important to us than safety Our certified health and safety systems are now effective throughout the company</p>	<p><b>P63</b> Read more about health and safety</p>																																																				

**Footnotes**

<sup>1</sup> Drinking water results published in 2011 for the 2010 calendar year measured as mean zonal compliance with the regulatory quality standards

<sup>2</sup> Lost water from leaks in our network and our customers own pipes 2010/11 result subject to formal confirmation from Ofwat in autumn 2011

<sup>3</sup> Final Determination Capex on a gross Pre-capital Incentive Scheme adjustment basis in 2010/11 prices

<sup>4</sup> For the appointed and non-appointed businesses

<sup>5</sup> Adjusted to 2010/11 prices and for non-appointed business and pension deficit payments to ensure consistency

<sup>6</sup> For more information see [www.hse.gov.uk](http://www.hse.gov.uk) or [www.chaspi.info-exchange.com](http://www.chaspi.info-exchange.com)

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# MANAGING DIRECTOR'S STATEMENT

**We have made a strong start to the new regulatory period, building on the improvements to our business we made over the course of AMP4. We continue to focus on the basics of delivering high levels of service to all of our customers.**

I am particularly grateful for the huge efforts made by our staff, contractors and customers to recover from one of the worst winters in recent times, and the coldest December ever recorded. Most notable was the success achieved in quickly repairing the huge increase in weather-related burst mains. This secured supplies for our customers during the severe weather, and importantly allows us to meet summer demand without supply restrictions or hosepipe bans.

Our financial results reflect the regulatory price reduction and reasonably stable demand. Turnover for the year was down from last year, but we ended the year in a strong position. Restructuring initiatives, tight budgetary control and continuing savings from other efficiency initiatives delivered some £15 million of sustainable annual savings. We have also had a very successful year in terms of designing and delivering efficiency on the current investment programme, outperforming our expectations at the start of the year.

Love Every Drop, our new innovative leadership platform, is already helping to influence the public policy agenda and establish us as a leader in our industry. It is transforming the way we do business and is at the heart of our strategic approach to achieving our business goals.

Operationally, we faced exceptionally severe winter weather, but due to careful planning earlier in the year and a sustained eight-week 24-hour-a-day operation, we maintained water supplies to homes and businesses, with leakage levels quickly returning to below seasonal levels.

We take great pride in being the only water company to have achieved improved levels of customer service quarter on quarter during the year. And our performance in other areas has won recognition for excellence too. Following on from three consecutive Platinum level awards, in early June 2011, we achieved Platinum Plus status in Business in the Community's prestigious CR Index, marking us out as a company committed to driving improvements and transparency in Corporate Responsibility.

*"I am particularly grateful for the huge efforts made by our staff, contractors and customers to recover from one of the worst winters in recent times, and the coldest December ever recorded."*

Our £2 billion investment programme to 2015 will support development and make a major contribution to the economic well-being of the east of England. It will also allow us to secure our asset base against the twin challenges of the impact of climate change and predicted population growth in our region.

Our innovative approach to new models of water stewardship is underscored at every step by our commitment to improving and enhancing the environment. Again this year our strategic priorities on carbon reduction and habitat protection have played a major role in both capital projects and in our day-to-day operations.

Excellent service delivery today, and into the future, demands courage, leadership and new ways of thinking. In this year of challenge and change I'm proud and excited to be leading this company and its thousands of dedicated professionals, as we set about achieving a new standard for water stewardship in the 21st century.

This year we have got off to a great start.

**Peter Simpson**, Managing Director

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# WHO WE ARE

## Ownership and company structure

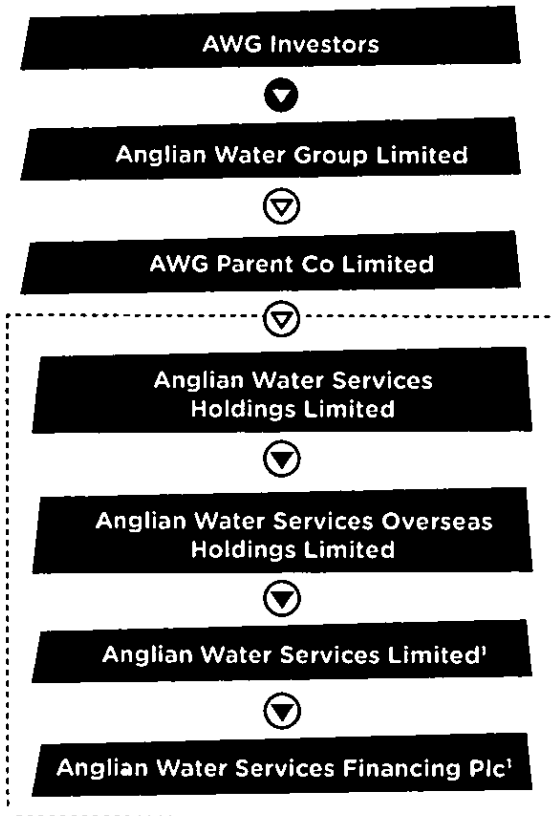
Anglian Water Services Limited (AWS) is the principal subsidiary of Anglian Water Group Limited (AWG). The AWG board consists of six investor representatives, the Anglian Water Services Managing Director; the Managing Director, Finance & Non-Regulated Business, and a Non-Executive Chairman.

AWG is owned by a consortium of investors

<p>Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group</p>	<p>CPP Investment Board is an investment management firm established to invest funds received from the Canadian Pension Plan.</p>	<p>IFM specialises in investing and managing private investment products across infrastructure, private equity, debt investments and listed equity portfolios. IFM is headquartered in Melbourne, Australia, with offices in London and New York.</p>	<p>3i is an international investor focusing on private equity, infrastructure and debt management.</p>
<b>% ownership</b>			
32.3%	32.9%	19.8%	15%
<b>Origin</b>			
Australia	Canada	Australia	UK
<b>Assets<sup>1</sup></b>			
A\$151.5 BILLION	C\$148.2 BILLION	A\$29.0 BILLION	£12.7 BILLION

<sup>1</sup> Assets under management at 31 March 2011

**Anglian Water ownership structure**



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

<sup>1</sup> Collectively known as the Anglian Water Services Group for which consolidated accounts are prepared

**Management board members are:**

- Peter Simpson**, Managing Director
- Scott Longhurst**, Managing Director, Finance & Non-Regulated Business
- Mark Anderson**, Director of Finance
- Chris Boucher**, Director of Information Services
- Richard Boucher**, Head of Business Change
- Paul Gibbs**, Director of Wastewater and Operational Management Centre (OMC)
- Kate Kelly**, HR Director
- Chris Newsome**, Director Asset Management

**Leading Anglian Water**

**The Anglian Water Services Limited Board**

**Chairman:** Sir Adrian Montague  
**Executive Directors:** Peter Simpson, Scott Longhurst, Jean Spencer, Chris Newsome

**Non-Executive Directors.**  
 Christopher Garnett, Robert Napier, John Watkinson

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

The Directors of Anglian Water Services Limited all served throughout the year

See pages 72 to 77 for Directors’ biographies, the Statement of Directors’ responsibilities and Directors’ report

The Anglian Water Services Executive Directors also sit on the Anglian Water Services management board, working closely together to develop, review and implement our long-term strategic direction

- Martyn Oakley**, Customer Services Director
- Mark Pendlington**, Director of Corporate Affairs
- Claire Russell**, Legal Director
- Jean Spencer**, Director of Regulation
- Paul Valleley**, Director of Water Services

**P 21**  
 For how we finance our business

**P 68**  
 See Financial performance

# OUR MARKETPLACE

## Water and wastewater industry overview

- 10 water and sewerage service providers (WASC companies) including Anglian Water
- 11 water-only suppliers
- Six of these water companies supply drinking water to residents in our region

Our investment 1990-2010

**£9 BILLION<sup>1</sup>**

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

 [www.hartlepoolwater.co.uk](http://www.hartlepoolwater.co.uk)

The companies in England are privately owned. Welsh Water, which supplies services in Wales, is a not-for-profit company. Customers in Scotland and Northern Ireland have publicly owned water and sewerage service providers: Scottish Water and Northern Ireland Water.

The key shared investment priorities across water and wastewater services are:

- Maintaining assets and infrastructure
- Improving drinking water quality
- Improving the quality of water returned to the environment
- Managing supply and demand
- Improving customer services

Between 1990 and 2010 the water industry in England and Wales invested £90 billion in improving water quality and services. Our investment in that 20-year period totals £9 billion<sup>1</sup>.

<sup>1</sup> In 2010/11 prices

 [Read more online  
www.anglianwater.co.uk](http://www.anglianwater.co.uk)

## Regulators and the regulatory environment

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

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

Ofwat regulates the 21 regional water companies in England and Wales

Ofwat's priorities are to

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

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


More information on our charges for 2010/15 is available on our website at [www.anglianwater.co.uk](http://www.anglianwater.co.uk)

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

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


This year we have participated in a number of consultations and investigations including the Water Supply Licensing volume threshold, Customer Transfer Protocol, New Appointments and Bulk Pricing, guidance changes to the Water Supply Licensing Operational Code and Common Contract.

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

 [www.ofwat.gov.uk](http://www.ofwat.gov.uk)

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

 [www.dwi.gov.uk](http://www.dwi.gov.uk)

 See our Drinking Water Quality report at [www.anglianwater.co.uk](http://www.anglianwater.co.uk) Go to About us/reports

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.

 [www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)

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

 [www.ccwater.org.uk](http://www.ccwater.org.uk)

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**Ofwat review**

The review of the water industry regulator will feed into the composition of the Water White Paper, to be published by December 2011. This review offers us the opportunity to contribute to the updating of water industry regulation. We have played an active part in the ongoing debate within the industry on what path reform should take, both reactively through responding to consultations, and proactively by investigating potential alternatives to meet the future challenges of growth and climate change.

 Read on for more on the Water White Paper

**Legislative and public policy environment**

**Government initiatives**

The implications of the Government's Comprehensive Spending Review on local authority spending became clearer at the end of this financial year. This has implications for service delivery as well, because the local government structures in which we must operate, most notably, Strategic Regional Development Agencies, have been replaced with a number of Local Enterprise Partnerships. Looking ahead, we will continue to examine how best to work with local authorities and other bodies in the light of these structural changes and budget cuts.

We value our strong relationships with a range of Government departments

 Read more online [www.anglianwater.co.uk](http://www.anglianwater.co.uk)

In the coming year, the Government is publishing two important white papers that will have an impact on our business.

**The Water White Paper**

The Water White Paper is due for publication in December 2011 and includes an evaluation of the conclusions of the recent Cave and Walker Reviews as it sets out to provide a route map for the industry into the future. We participated in both reviews.

- The Cave Review, set up by the Government in 2008, examined competition and innovation in the water industry. Its broadest conclusion was that the case for extending domestic competition was weak, with industry effort best concentrated on widening choice for business customers.
- The Walker Review (2009) looked at charging for household water and sewerage services. It confirmed metering as the fairest charging mechanism and recommended that, while charging systems should incentivise the efficient use of water, affordability should remain a key priority.

In addition, the White Paper explores issues including securing sustainable water supplies, ensuring choice and customer value, modernising the current regulatory system and effective water management.



**The Natural Environment White Paper**

The Natural Environment White Paper looks at the environment of the United Kingdom as the basis on which the country's economy is built. It is the first such paper for 20 years and has taken a revolutionary approach by looking to reconcile previously competing ideas of wealth creation and environmental sustainability.

We responded to all the official Government consultations on the white papers through our Regulatory Impact Group. Meetings were held with senior civil servants responsible for drafting the white papers to discuss our ideas and experience, as well as to influence the outcomes. We also regularly attended industry events on the white papers, which provided opportunities to identify issues common across our sector.

**Transfer of private sewers**

The Government has decided that in England and Wales all private sewers and lateral drains that connect to the public sewer will transfer to the ownership of the 10 water and sewerage companies. The transfer is scheduled to take place in October 2011, subject to confirmation by Parliament. We have plans in place to ensure as smooth a transition as possible and our transition team has been in place for the last year. We are preparing a range of strategic communications for our wastewater customers, explaining the adoption process and detailing mutual responsibilities and obligations.

**The business environment: competition in the water industry**

**The current competition framework**

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

Inset appointments are where the incumbent water company is replaced by another company which becomes responsible for customer service and maintenance of the supply and/or wastewater network. To qualify for an inset appointment the site must be single premises using more than 50 million litres of water a year, or be a 'greenfield' site that does not have an existing connection to the water supply network. Alternatively, insets may be by agreement. We have operated inset appointments for many years and supply customers outside our statutory area on five sites. Within our area there are six sites served by another company.

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



More on managing risk

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The competition framework is currently under review. We support the introduction of competition where there are clear benefits to customers, and are playing an active role in the consultation process. We were involved in both the Cave Review (2008) of competition and innovation and the Walker Review (2009) on charging for household water and wastewater services (See The Water White Paper, above)

We were members of the Market Reform and Finance Forum, a group chaired by Defra and comprising representatives from Government, regulators, the Shareholder Executive and the water and wastewater companies. We continue to be active in the following groups: the *Indepen* project on Water Policy and Regulation, UKWIR Customer Engagement Project and the Water UK Competition Focus Group.

**This year, as part of our thought leadership programme, we published two major evidence-based reports around new thinking on the management of water resources in the future. Both have been recognised as valuable contributions to the debate on the future of the industry.**

**A right to water?  
Meeting the challenge of sustainable water allocation**

In partnership with Frontier Economics, we've explored the processes and arrangements for protecting and sharing the water that sustains our environment and economy between different users.

While the current arrangements have worked well so far, the challenges and uncertainties of climate change and growth mean we will need to find innovative solutions to respond to pressures on water resources in the future.

**Trading theory for practice**

Water trading is a potential answer to one of the biggest challenges facing the future viability of our industry – water resource management. This report presents the conclusions of detailed technical analysis undertaken in close collaboration between Anglian Water, Essex and Suffolk Water and Cambridge Water Company.

 To read or download our reports, go to [www.anglianwater.co.uk/future](http://www.anglianwater.co.uk/future)

# BUSINESS STRATEGY

**Our fundamental goal is to deliver a reliable supply of safe drinking water and effective wastewater services at an affordable price.**

We want to do this in a way that meets the expectations of our customers and our stakeholders for sustainable, affordable services. It is clear to us that in order to achieve the business aims that make long-term services possible we must change fundamentally society's relationship with water, and drive significant behavioural change.

That's why, in October 2010, we launched Love Every Drop, our campaigning platform that brings to life the priorities underpinning our business strategy and seeks to inspire colleagues, customers, regulators and key stakeholders to work with us.

## Love Every Drop

Love Every Drop builds on our record as a leader in our sector to put water at the heart of a whole new way of living. We aim to do this in three ways: as a smart business, to lead on stewardship of our most precious resource, to work with nature to be smart about the environment, and by inspiring and innovating smart communities.

**To make this a reality, we've set ourselves 10 goals backed by over 100 commitments, targets and measures.**

Love Every Drop's specific goals and measurable reporting framework went 'live' in October 2010. The framework consolidates our achievements to date and aims to take our operational and customer service to a new level.

We plan to mark the first anniversary of Love Every Drop with a review of our progress.

In this Annual Report and Accounts for the year 2010/11, we follow the format of our reports for the last two years, discussing our performance under the broader headings of the strategic priorities outlined in our Strategic Direction Statement 2010-2035.

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Our Strategic Direction Statement 2010-2035 (SDS) put in context a number of challenges facing us as a business, with growth and the impact of climate change of particular and unique importance to our region. The SDS sets a number of key strategic priorities and assumptions integral to our long-term planning.

- Improve the environment in our region
- Mitigate and adapt to climate change impacts
- Improve our efficiency and flexibility
- Meet the needs of our customers and keep bills at current affordability

View or download our Strategic Direction Statement 2010-2035. [www.anglianwater.co.uk/sds](http://www.anglianwater.co.uk/sds)

**Key strategic priorities 2010-2035.**

- Increase the resilience of our water and wastewater services
- Secure and conserve water resources
- Plan and invest for growth in our region

These 10 ambitious goals are derived from our long-term key strategic priorities, and were launched in our Love Every Drop Manifesto in October 2010

GOVERNANCE

Leading employer in our region

No accidents

No pollutions

No incidents

Get it right first time, every time. Zero waste

STATUTORY ACCOUNTS

Frontier performer in our industry

100% of our customers very satisfied with our service

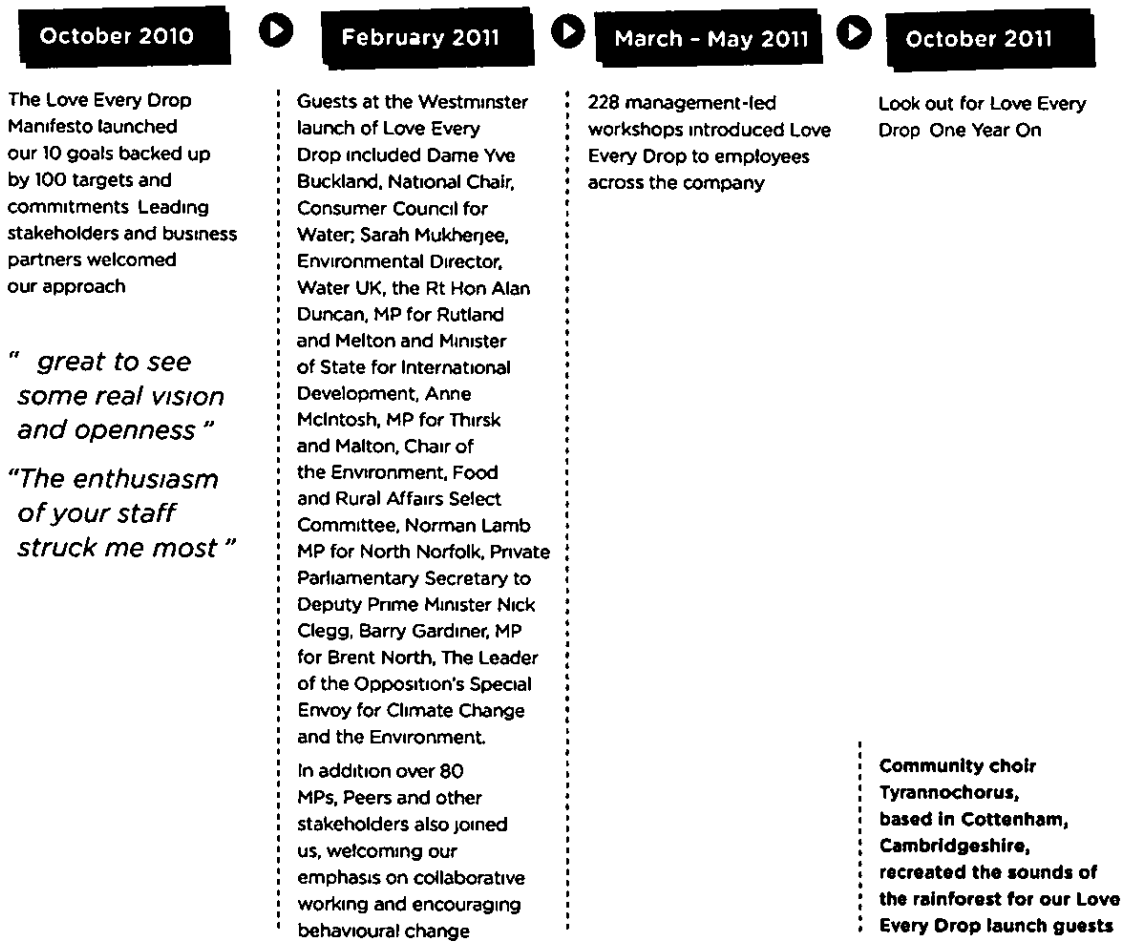
Halve our embodied carbon in new assets we build in 2015 from a 2010 baseline

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Reduce our operational carbon emissions by 10% in real terms by 2015 from 2010 baseline

Effective management of the impact of growth and climate change in our region

## Consolidate and inspire



### Reporting timeline



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# RISK MANAGEMENT OVERVIEW

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

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

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

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

This section gives an overview of our risk management priorities, outlines our approach to mitigation and adaptation and points to sources of more detailed information.

There is more detail on our key long-term challenges in our Strategic Direction Statement. To read or download our reports, go to [www.anglianwater.co.uk/sds](http://www.anglianwater.co.uk/sds)

## FINANCING OUR BUSINESS

More information on our financing  P 68

### Description

We fund a £2.3 billion capital programme. It's critical that we have robust financing arrangements in place.

### Mitigation

We are funded predominantly by debt in the form of long-term bonds and other debt instruments, rather than equity (shares). Net debt accounts for approximately 79% of our regulatory capital value as at March 2011.

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

## CLIMATE CHANGE

More information  P 46

### Description

Climate change presents one of the biggest challenges to our business. Potential impacts include flooding within our sewer network, flooding of our treatment sites and long-term changes in our region's water resource availability. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, so we must manage supply and demand carefully, both today, and for the long term.

### Mitigation

We work closely with national and regional agencies to develop adaptation plans for our industry, and to ensure that we work to common standards on forecasting the impacts of climate change in our region - we then reflect these forecasts in our investment plans for the next 25 years. We have set ambitious goals to reduce our carbon emissions, both in terms of the carbon footprint of our new assets, and in the energy consumption of our operations.

## FLOODING OF KEY SITES

More information on resilience  P 36

### Description

One of the key potential effects of climate change is the impact on the weather in our region. We expect more intense, extreme storms and wetter winters. These are likely to cause localised flooding that may impact our wastewater network, flood customers' homes and potentially disable treatment works.

### Mitigation

We invested £40 million on AMP4 schemes to improve resilience of our network, and plan to invest a further £40 million in AMP5 for flooding and resilience schemes. Comprehensive Business Continuity plans are in place, accredited to BS25999, including detailed Flood and Emergency Response plans for our key sites. These plans are regularly tested, including in regional multi-agency exercises, to ensure the plans are robust and effective.

## REGIONAL GROWTH

More information  P 52

### Description

Coping with the forecast rise in population in our region is one of our most significant long-term challenges. Our region contains a large part of three of the four growth areas defined by the Government as well as a number of individual growth points. Although current economic conditions have slowed the rate of house building in the short term, we expect that planned developments will restart once economic conditions in the UK improve.

### Mitigation

We invest considerable effort in forecasting our supply and demand requirements at a local and regional level for the next 25 years. We continually assess our investment options to identify the right combination of investment in new water resources, enhancements to our networks, and water efficiency measures to meet this challenge most cost effectively for our customers. We are also championing the use of sustainable drainage techniques, in place of piped systems as a more environmentally sound way of managing surface water in our growing region.

## ENERGY MANAGEMENT

More information  P48 to 51

### Description

We are one of the largest users of electricity in our region, due to the power needed to treat water and wastewater, and pump it around such a geographically flat region. Energy represents 12% of our total operating costs. Wholesale energy prices have fallen from the very high levels seen in the summer of 2008, but continue to be very volatile, reflecting global economic and political conditions.

### Mitigation

We use a comprehensive hedging programme to manage our exposure to wholesale energy prices, and over the last two years we have progressively locked in over 95% of our wholesale energy costs for the next four years. We have a significant and continuous programme to reduce our energy consumption on our sites, with a focus on the energy efficiency of new investments, and on more energy efficient ways to operate our current plants. We now generate close to 5% of our own electricity needs through renewable power plants based on our own sites, with plans in place to increase this by the end of AMP5.

## BAD DEBT

More information  P40 and 69

### Description


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

### Mitigation

We are ensuring that we make our payment arrangements as flexible as possible for those customers who want to pay but are struggling to do so – for example by the provision of a telephone debt helpline, a *Back on Track* scheme for those in arrears who are now in a position to make regular payments, and the Anglian Water Assistance Fund which provides further assistance to those experiencing genuine hardship.

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

## WATER SECTOR REFORM

More information see  P12  
Our marketplace/water white paper

### Description

The future shape of the water sector has been the focus of considerable debate over the last two years in particular, with a number of reviews by leading experts and government bodies into the key areas of Customer Tariffs, Economic Regulation and Competition. The outcome of these reviews is still uncertain, but it is likely to result in significant changes to the industry.

### Mitigation

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



## PRIVATE SEWERS

More information  P15

### Description

We fully expect that private sewers in our region will transfer to our ownership from 1 October 2011, with privately owned pumping stations also transferring to us over the coming years. We estimate this will increase the length of our sewer network by 80% and that we will adopt upwards of 3,000 pumping stations. We expect that the condition of these assets will be very variable and will require significant investment over time to ensure they meet our standards.

### Mitigation

We have established a dedicated project team to manage this transition, and this team has been in place for most of the last year. We have conducted extensive surveys to assess the condition of the assets that we will adopt and have carefully planned our resource needs to effectively manage the increased amount of repair and maintenance required for these assets. We are also preparing a range of strategic communications for our wastewater customers, explaining the adoption process and detailing mutual responsibilities and obligations.

## EFFICIENCY DELIVERY

More information  P43

### Description

The delivery of efficiencies in our operations is vital to our success as a company – keeping our costs down helps to minimise our customers' bills, and is the foundation for how we are incentivised in the current regulatory structure. We have delivered significant cost efficiencies across our capital and operating cost base in AMP4, and need to continue to drive out costs throughout AMP5 and beyond.

### Mitigation

We have two major efficiency programmes in place, focused on driving out costs from our capital programme and our operating cost base. Examples of efficiency projects we have implemented at the start of AMP5 include:

- The changing of working practices in our front-line workforce
- A major efficiency programme across our back-office teams
- A review of our delivery of repairs to our networks
- Continued focus on energy efficiency
- Control of bad debts

## COMPLIANCE WITH LEGISLATION

Our Directors' report is on  P74

### Description

We carefully manage compliance with current legislation, but are aware that the introduction of major new laws can increase the risk of inadvertent non-compliance. One such new law is the Bribery Act 2010 which came into force on 1 July 2011. The Bribery Act has significant implications for organisations carrying on business in the UK, who can be liable for failing to prevent bribery being committed on their behalf by their business associates. There are particular risks for companies with extensive supply chains as this could cover bribery by their suppliers or contractors where these third parties are performing services on behalf of the company.

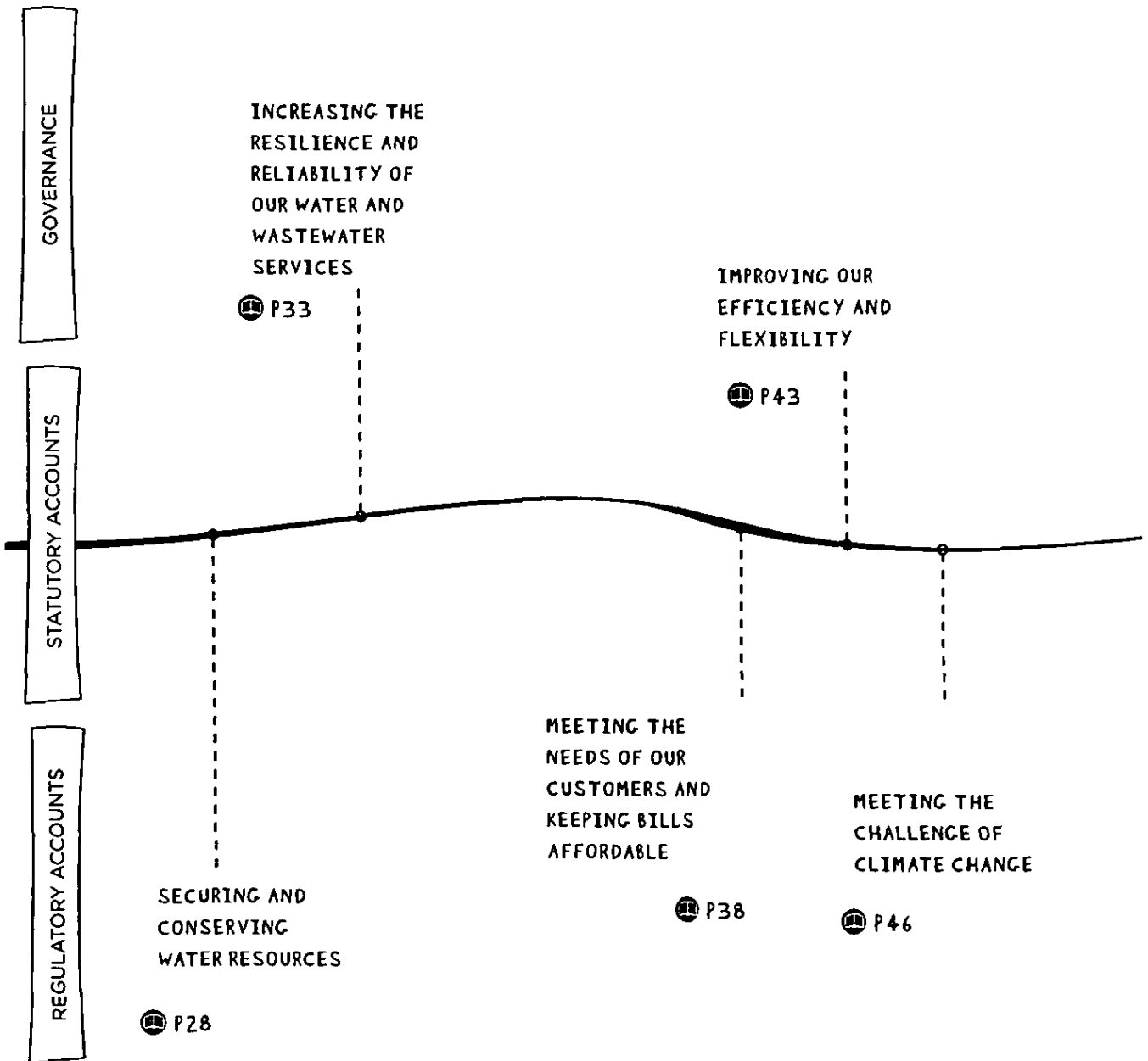
### Mitigation

Our legal department works closely with the business to ensure compliance with legislation generally, and the Legal Director sits on the Risk and Compliance Management Group which meets on a quarterly basis. With respect to the new Bribery Act we have taken a zero tolerance approach. The board has approved an implementation plan for the business which is designed to ensure compliance with the Act and is framed around the six principles set out in the guidance issued by the Ministry of Justice.

BUSINESS REVIEW

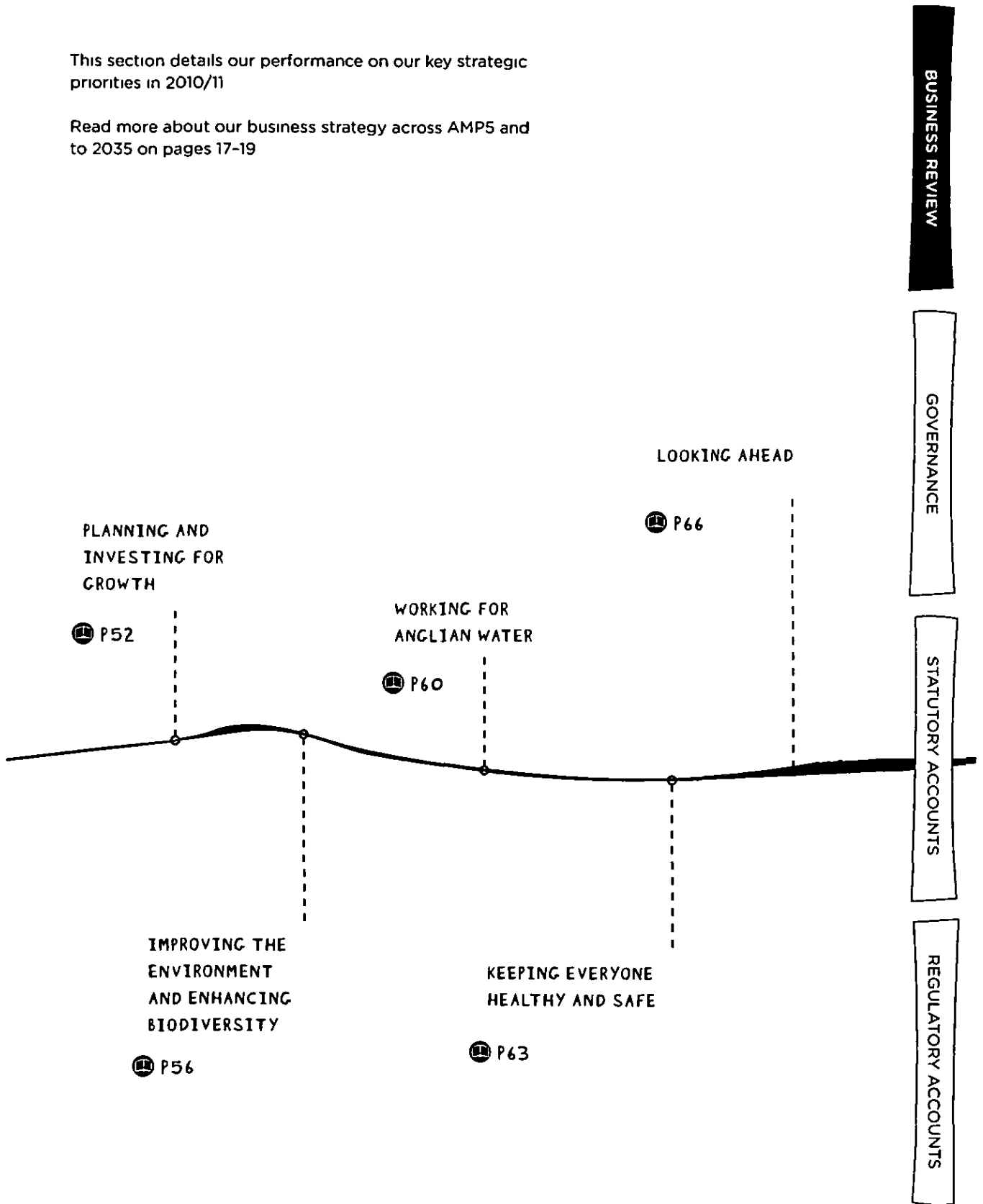
# DELIVERING OUR STRATEGIC PRIORITIES

We prioritise our investments, operations and planning to provide reliable supplies of safe drinking water and effective wastewater services at affordable prices to over six million customers.



This section details our performance on our key strategic priorities in 2010/11

Read more about our business strategy across AMP5 and to 2035 on pages 17-19



## A strong start to AMP5

In this, the opening year of Asset Management Plan period 5 (2010/15) – AMP5 – we set out to consolidate and build on the high levels of performance that saw us consistently ranked as leading performers in the water and wastewater industry in AMP4

The first year of any AMP period is always a challenge. 2010/11 was exceptional for its record-breaking freezing winter temperatures and extended period of dry weather, unusual even in our drier than average region.

Our combination of forward-planning and investment in innovation and skills meant we nonetheless delivered high and improving levels of service. Most importantly, we overcame the considerable challenges of the severe weather to keep service interruptions to a minimum and meet customer expectations on security of supply.

Across the five-year AMP period we plan to invest £2.3 billion<sup>1</sup> in our region. We continue to work successfully with our major contractors in the @oneAlliance, and have also appointed new contractors to deliver significant parts of our capital programme. Our focus this year has been on ensuring the capital project governance processes critical to collaborative working are robust and in place.

<sup>1</sup> 2007/08 prices

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Read more about our  
Strategic Direction Statement

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## INVESTING **£2.3 BILLION<sup>1</sup>** IN OUR REGION BY 2015

**£1,224 MILLION** on maintaining our existing assets, from pipes and meters to treatment works

**£588 MILLION** on meeting the needs of a growing region. Over the next five years we will provide 145,000 new homes with a water supply and make provisions for 180,000 new properties to connect to our sewerage network

**£267 MILLION** on environmental improvements to increase protection for the plants, animals and habitats in our region

**£123 MILLION** on drinking water quality enhancements

**£94 MILLION** on enhancing our levels of customer service, which includes reducing the risk of loss of water supply for customers

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

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## SECURING AND CONSERVING WATER RESOURCES

The most severe winter weather for over 100 years, followed by the driest spring in East Anglia since 1910 and the hottest spring for over 300 years, presented some exceptional challenges. Throughout the year, we have given top priority to our core objectives: securing water supplies across our region and maintaining high levels of customer service.

November to January saw a record number of severe bursts both in our networks and in customers' pipes and plumbing, resulting in a doubling of the leakage level at the peak. Despite this, very few of our customers experienced the supply interruptions suffered elsewhere as we focused on maintaining the service we know our customers value most highly - an uninterrupted supply of safe water. Throughout the winter and spring period we devoted significant additional resources to manage leakage and as a direct result are able to reassure customers that supplies will remain secure for the rest of this year, without the need for any restrictions.

In the summer of 2010 we celebrated the fact that we haven't had a hosepipe ban for more than 20 years. We intend to keep it that way with a strategy that actively manages both supply of, and demand for, water. In our water resources management plan delivered to the Secretary of State in February this year we reported significant progress in the delivery of our supply and demand schemes for the year.

### Our priority to our customers? Maintaining supplies of safe drinking water.

Throughout the winter we focused on maintaining water supplies and minimising inconvenience to our customers. Our proactive approach to managing leakage enabled us to meet the operational demands of close to double the number of burst mains against the previous year.

We spent an additional £4 million on preventing and detecting burst mains this winter alone.

On Christmas Eve 2010, a 4-inch main running beneath a bridge over the busy A180 in north Lincolnshire froze solid. Several homes and a brewery were affected, so our engineers installed an overland pipe (shown here in blue) to maintain supplies to those customers over the holiday period. The pipe was in place until 10 January, when the main finally thawed out.

With the experience of the two challenging winters of 2008/09 and 2009/10 to guide us, we had anticipated and prepared for further bad weather. During the freezing weather and throughout the holiday period we deployed more than double the usual number of technicians and contractors, who worked around the clock and in extremely hazardous conditions to restore water supplies and minimise inconvenience to our customers.

We focused on maintaining water supplies and minimising inconvenience to our customers.

In contrast to some other areas of the UK, we maintained supplies to our customers, which included increasing water put into supply and maintaining or increasing pressure to guarantee water supplies. As a consequence our total leakage for 2010/11 was 229 MI/d, which was above our target in the north of the region where the conditions were most severe. However, in the south east of the region leakage levels were lower than last year. Our underlying leakage levels remain amongst the lowest in our sector, we have met our leakage targets for the last eight years.

### Improving our service to customers

Although the severe weather was a huge challenge, we improved our service levels, cutting target response times by half. We plan to make these improvements permanent, aiming to deal with burst mains in three days, and service pipe leaks in five.

We've cut target response times by half.

We set up dedicated hotlines for our thousands of employees and contractors, asking them to be our eyes and ears across the region. Our freephone **Stop a leak with your finger** campaign included radio adverts and banner advertising on buses, and encouraged customers to report leaks and bursts to our mains network.

Thousands of customers also contacted us requesting help with leaks in their own supply pipes. Our contact centres, supported by our media team, offered advice on protecting household pipes from the severe weather and directed customers to the list of approved plumbers available on our website.

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### Smart water pressure management

It's not enough to fix leaks, we want to stop them before they happen.

Between now and 2015, we're investing £1.6 million on smart water pressure management across our region. Pilot schemes are already cutting the number of burst mains in high-risk areas by up to 80% and reducing smaller leaks in customers' supply pipes by 40%. Optimising water pressure is saving an average of two litres of water a second in every scheme, with a daily saving across our region of 2.4 million litres. Smart water pressure management has already saved around £0.5 million in detection and repair costs.

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Read more about water efficiency campaigns

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Read more about leakage management

### Security of supply

We maintained the balance between supply and demand throughout the summer of 2010, during prolonged periods of high temperatures, high demand and low rainfall. In early spring 2011, storage levels at our reservoirs were normal for the time of year. Looking ahead, we are confident that water resources are secure to meet forecast demand in 2011.

**We haven't had a hosepipe ban for over 20 years.**

### Maintaining asset serviceability

One of our key licence obligations is to maintain our assets to ensure they continue to provide services to the required standards. Ofwat makes annual assessments of the 'serviceability' of companies' assets and penalises companies failing to keep them at a 'stable' level. Improving serviceability for both above and below ground wastewater assets was a priority during AMP4 and continues to be so in AMP5.

In 2010/11 we increased our investment, spending a total of £27 million on our water infrastructure.

We plan to replace around 500 kilometres of mains pipes over the next five years, targeting our efforts on those areas with a higher than normal level of bursts. The project includes a rolling programme to replace ageing mains with newer and more reliable state-of-the-art high performance polyethylene pipe (HPPE). Early in 2011 we began our £2.5 million scheme to replace over 30 kilometres of water mains over the next year in the area between Grimsby and Louth.

Expenditure on infrastructure directly affects levels of customer satisfaction. For example, since 2005 we've reduced the number of customers contacting us about discoloured water by 42%. This year complaints fell to the lowest levels ever recorded.



## Our most precious resource

Water conservation is a key business objective. Our twin-track strategy of active management of supply and demand has held consumption at the same levels as 20 years ago, even though the population in our region has grown by 20% in that time. Average daily water consumption in our region is 145 litres per person, compared to a national average of 150 litres.

We encourage our customers to use water efficiently and, in a major capital project running over the next five years, plan to either install or exchange over one million water meters in households across our region. By 2015 we expect over 80% of our customers to be saving water and money with a metered supply.

Our metering and water efficiency programmes are all designed to give the customer a choice of water-saving measures that suit their lifestyle. We want to inspire them to have a positive impact on the environment and help them save money during challenging economic times.

### Pay-as-you-flow - to save water and money

Pay-as-you-flow is a key strategic demand-management initiative. Over the next five years we'll install 183,000 meters in homes in some of the driest areas of our region. When the meters are fitted, we will provide customers with a comparison between their measured and unmeasured bills to encourage them to switch to a metered supply.

As part of the project's engagement programme we are carrying out a trial in the Colchester area to help customers monitor their water use. The display unit we provide is simple to use. A quarter of the household energy budget is typically spent heating water, so the project also helps customers see the multiple benefits that saving water brings. Heating less water delivers real savings for household energy bills and cuts carbon.

Wherever possible, we want to add value for our customers and combine our metering initiatives with water efficiency projects. We're putting into practice a number of concepts outlined in Ofwat's recent publication *Push, pull, nudge*.

67% of our domestic customers already have a meter installed. Our target is 80% by 2015.

Read more online [www.anglianwater.co.uk/payasyouflow](http://www.anglianwater.co.uk/payasyouflow)

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### Bits and Bobs - saving up to 40 litres a day

This year we also launched our five-year programme to fit a range of water-saving devices to 87,000 homes. In a campaign supported by appealing and engaging marketing literature, customers are responding well to our **Bits and Bobs** offer of *gizmos, gadgets and whatchamacallits* designed to use water more efficiently around the home and provided and installed free by qualified plumbers. Our teams of plumbers also fix small leaks whilst they are on the premises and are able to chat with customers, giving advice and water-saving tips. So far, customers with our Bits and Bobs installed are making average household savings of 40 litres a day.

### Working with our business customers

Local businesses use around a quarter of all the water we supply. We provide extensive support to businesses to reduce their water and associated energy use, and the resulting carbon emissions. For instance, our water efficiency assessors carry out free audits, helping to make sites as water efficient as they can be. This year we carried out 222 audits of premises such as schools and hospitals, finding potential savings of over 500,000 litres of water a day.

Households are responding well to our Bits and Bobs offer of free gadgets designed to make it easier to use water more efficiently.

### Case study: Helping businesses meet their water and carbon targets

Founded over 70 years ago and now the largest producer of breakfast cereals in the UK, Weetabix has signed up to the Federation House Commitment, reducing water use in the food and drink industry, and has pledged to reduce water use by 20% from 2007 to 2020. In addition, the company has been aiming to reduce their carbon footprint by over 3,000 tonnes of CO<sub>2</sub> a year.

Our leak detection team discovered an underground leak in the company's water supply network was losing over 140,000 litres of water every day. We repaired the leak with minimal disruption to the customer's rigorous production schedule.

Our industrial process engineers later visited the site to review the site's water management strategy. They were able to recommend a number of specific measures that will help towards a 20% reduction in water use and product wastage.

Three years into their pledge to reduce water, Weetabix was making good progress towards their targets, when they hit a snag. Water use at their main production site remained high after all the processes were suspended during the Christmas shutdown, indicating a major leak.

# INCREASING THE RESILIENCE AND RELIABILITY OF OUR WATER AND WASTEWATER SERVICES

**We borrow water from the environment, store it and treat it to world-class standards to supply 1.2 billion litres every day to our 4.4 million drinking water customers in towns and villages from Grimsby in the north-east of our region to Milton Keynes at its south-western tip.**

We plan to invest £40 million across AMP5 on resilience and flood protection schemes

Active management for a resilient supply focuses not just on securing new sources of supply and a robust distribution infrastructure. We also work with a range of organisations and partners to improve the quality of raw water.

We are building strong relationships with local government and other organisations to promote the integration of water and wastewater infrastructure and provision at the earliest stages of planning and development.

As well as providing safe and reliable services every day of the year, we play a vital role in planning for resilience should there be a major public emergency. This could include, for example, widespread flooding. We're investing to ensure that major centres of population throughout our region have access to safe water in the event of any interruption to normal supply.

We also invest significantly and specifically to meet the challenge climate change presents to the provision of safe and reliable drinking water supply and wastewater services.

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[Read more about climate change](#)

### Safeguarding water quality and supply

Providing 1.2 billion litres of safe, clean drinking water to our customers every day makes a vital contribution to the public health of our region. The drinking water quality regulator the Drinking Water Inspectorate (DWI), water industry regulator Ofwat, and the Environment Agency oversee our compliance across a unique and extensive array of UK and EU statutory and regulatory obligations. These focus on quality, supply, public health, investment and pricing and safeguarding the environment.

During 2010/15 we're investing £123 million in further improvements to drinking water quality.

### Water quality

The quality of the drinking water we supply, as measured by the one third of a million tests we undertake each year, is reported in calendar years.

**Our record on drinking water quality standards remained excellent in 2010, with overall compliance of 99.96% (2009- 99.96%).**

There's more detailed information on our overall compliance with regulatory standards and our investment in drinking water in our Drinking Water Quality report published annually on our website.

This year marked the beginning of our latest five-year £123 million programme of investment in drinking water quality. In addition to our proactive catchment management schemes, we are increasing the capabilities at our water treatment works. We have already completed, ahead of schedule, a £0.4 million investment addressing rising pesticide levels in raw water at our Riddlesworth treatment works in Norfolk.

See our Drinking Water Quality report at [www.anglianwater.co.uk/dwq](http://www.anglianwater.co.uk/dwq)

**Catchment management** is a key component of this programme to manage risks to our supplies posed by nitrates and pesticides. Improving the quality of rivers, reservoirs and groundwater sources in our region reduces the need for expensive, energy consuming water treatment processes and secures the use of these water sources into the future. We have management schemes in seven groundwater catchments and all of our 13 surface water catchments.

### Safeguarding public health - leading on lead reduction

This year we launched an integrated package of measures to tackle lead, which sets us apart from the others in our sector and will help us meet the new EU limit of 10 µg/l (parts per billion) of lead in drinking water from 2013

In the first of 22 planned schemes across our region we have installed new phosphate dosing treatment processes at Wighton works to reduce the amount of lead that is dissolved into the water when it passes through lead pipes in customers' properties

We're also spending over £15 million to replace lead pipes in our region, working with housing associations, local authorities and householders to raise awareness and encourage replacement of their lead pipe work. The project is delivered by our Lead Strategy Team who provide a dedicated Lead Advice Line for customers, and free lead tests for any customer concerned about lead levels in their water supply

Where possible we are identifying opportunities to work in tandem with local authorities and housing associations. At one initiative in Ipswich, we're adding value to their housing refurbishment programme by replacing lead communication pipes. This minimises disruption to consumers and delivers long-term benefits to public health

We're also working with maternal and child health professionals on targeted campaigns giving customers and particularly the parents of young children the information they need to make informed choices about replacing or modifying lead pipe work in their homes

 Telephone our lead helpline  
0845 070 3445

### Investing for a reliable supply

We completed our £116 million investment at Rutland Water at the end of last year, delivering our Wing expansion scheme. This project ensures reliable supplies into the future and is pivotal to supporting growth for the south and east Midlands. It combines facilities for the abstraction and treatment of drinking water with the creation of additional wildlife habitats at the reservoir

A key element is the new state-of-the-art treatment works at Morcott, close to Rutland Water. It was commissioned in March 2010 and can produce up to 90 million litres of drinking water every day. It will eventually serve customers in Corby, Kettering and Milton Keynes.

The project also involved creating a new pumping station at Empingham, and upgrading other parts of the existing supply system. 34 kilometres of new water main now run underground along a route from Rutland Water to Corby, Kettering and beyond. We've taken care to skirt this pipeline carefully around several valuable wildlife habitats and archaeological sites along the way

 P58  
Read more about our award-winning wildlife habitats at Rutland Water

### Planning for the worst

In January 2011 we opened our £15 million scheme to secure water supplies in Norwich. The new water treatment works in East Hills, Costessey, and the associated new pipelines, make an important contribution to our resilience strategy, which aims to safeguard water sources serving large populations in the event of flood, fire or explosion.

Although the chances of this happening are extremely low, Norwich had been identified as an area most at risk if its water sources fail. Should the worst happen now, the new water treatment works, including 8 kilometres of new water mains, will keep the taps running, supplying customers with up to 24 million litres of treated water every day from boreholes outside the city.

Opening the East Hills water treatment works, Norwich South MP Simon Wright (pictured, front right) said "There are few things as important as a ready supply of clean, safe water. This new treatment works helps secure that supply for the people of Norwich."

### Resilient wastewater and drainage services

As a result of targeted action during the year, we're pleased to report across-the-board improvements to our wastewater performance, with reductions in the number of sewer collapses, blockages and flooding. Pollution incidents are at a historic low. For more details see page 56.

Reducing the numbers of customers experiencing sewer flooding is a key priority for us. Our combination of local and region-wide initiatives means that year on year we're cutting the number of households going through this unpleasant experience.

We've now introduced a new Flood Management System and use it to manage our risk registers. Our root and branch review of sewer flooding data collection and reporting informs our schedule of planned improvements throughout AMP5.

**Fighting fat**

Blockages to sewerage networks caused by fats, oils and grease (FOG), and unflushable items such as sanitary products, nappies and wipes, are an industry-wide problem. The inappropriate disposal of these items caused more than 7,000 blockages in our network this year and cost us £5.8 million in flushing and maintenance work.

We need to change fundamentally people's attitudes and behaviours around using the drains and sewers as a bin. In summer 2011 we're launching a first for the water and wastewater industry, piloting a social marketing campaign to change the behaviour of customers close to 'blockage hotspots' in Peterborough, one of our region's largest cities.

Towards Sustainable Water Stewardship is available online. Go to [www.anglianwater.co.uk/developers](http://www.anglianwater.co.uk/developers)

**Learning from nature**

We are strong advocates of sustainable drainage systems (SUDS) and have increased the scope of our work with developers and local authorities to manage the risk of surface water flooding. SUDS learn from nature to offer an alternative to conventional surface water management. In built environments, they aim to mimic the way rainfall drains in natural systems to avoid many of the problems of overloaded drains and sewers, particularly during storms and heavy rainfall.

We recently published our SUDS adoption manual, *Towards Sustainable Water Stewardship*, a practical guide to SUDS implementation, aimed at planners and developers.

**Safeguarding our assets**

**Exercise Watermark**

Teams from across the company joined national and regional emergency services and government agencies to keep our communities safe from harm in time of floods. Around 10,000 people took part in Defra's largest ever civil emergency drill, Exercise Watermark, based around the scenario of a tidal surge hitting the east of England. We used this opportunity to test and improve our contingency plans and incident room communications.



Read more about how we manage risk to our key sites

**Business continuity**

In 2009/10 we achieved the standard of BS25999-2:2007 specification for Business Continuity Management. One year on from our initial certification, Lloyds Register Quality Assurance (LRQA) has "considerable confidence" in our Business Resilience Management System.

We are the only water and wastewater company in the UK to achieve certification, a key recommendation of the Pitt Review of flooding. Regular workshops and training sessions ensure that if any part of our operation is hit with an emergency, from flu pandemic to fire in any of our centres, we will be able to meet our obligations to our customers.

## MEETING THE NEEDS OF OUR CUSTOMERS

This year Ofwat introduced their new industry-wide measure, the Service Incentive Mechanism (SIM) It replaces the Overall Performance Assessment (OPA) and emphasises customer satisfaction.

We fully support the principles behind this new approach to evaluating performance in our sector and have found it a useful driver to enhancing our customers' experience

**SIM is measured quarterly and we've improved our score in each successive three-month period. Our SIM satisfaction score for the year is 4.15 out of 5**

Our customer service standards focus on providing safe, reliable and problem-free services to domestic and business customers and, where we feel these are valued by our customers, we are looking to extend the range of services we offer

Our commitment to excellent customer service through dedicated UK-based contact centres continues, while off-shoring back-office operations is making a significant impact on our operational efficiency

### Measuring customer satisfaction

Our performance is determined by customer satisfaction surveys carried out on behalf of Ofwat by a third party company, who conduct 200 surveys for each company on a quarterly basis. During this survey customers are asked about their whole experience with us, from initial contact to how well we tidied up the site on completion. The customer is then asked to rate how satisfied they are overall. The responses are used for the industry-wide company comparison.

**OUR GOAL** 100% of our customers very satisfied with our service

**OUR GOAL** To be the frontier performer in our industry



We've responded well to the challenges of SIM. In the final quarter of the year we were second amongst the water and wastewater companies, and fourth for the year overall. Our improved performance in each successive quarter was directly linked to the introduction of new initiatives and we will continue to implement service improvements to achieve first position.

Our focus on measuring very satisfied customers through our own surveys works alongside SIM initiatives as a powerful driver to change behaviours and has also delivered improved performance across the year. In our own independent weekly surveys a third party company surveys between 500 and 600 customers on our behalf, interviewing a total of over 25,000 people every year. In 2010/11 we improved the level of customer satisfaction with our contact centres month on month to end this challenging year with 83% of customers rating themselves as 'fairly' or 'very satisfied' with our overall service (2009/10 81%).

In another significant measure of our commitment to continually improving our service, the Consumer Council for Water (CCW) has investigated fewer complaints against us this year, down to 22 from 65 in 2009/10 and 149 in 2008/09.

### Speeding up our response times

The majority of customers who write to us with a complaint now communicate with us by email instead of by post. We are working hard to reduce our response targets from 10 days, and now resolve over 95% of written communications within three working days.

### Getting it right when we get it wrong

Sometimes things do go wrong. When they do, we aim to put them right quickly and without fuss. We have a dedicated customer relations team who are committed to solving problems and to reaching a speedy and fair resolution for the customer.

To make sure of continual and sustainable improvements to our levels of customer service, we make regular workshops with colleagues across our business an integral part of the work we do, looking at the root cause of service failures and customer dissatisfaction. We are able to identify preventative measures and take action. We also work hard to understand our customers' needs, identifying services they like and value.

### Texts a success

Customers welcomed our trial of a text alert service, to notify them when we are on our way to a job. As a result of the positive feedback we received, we are planning to implement text notifications as routine in 2011/12.

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We're committed to delivering excellent customer service through UK-based contact centres in Huntingdon, Hartlepool and Lincoln. At the same time the savings delivered by off-shoring back-office operations make an important contribution to our operational efficiency and reducing our operational costs. Our colleagues based in Trivandrum, India deal with back-office customer correspondence and account maintenance and are delivering exceptional quality.

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Read more about improving efficiency and flexibility

### We like to get it right first time

**Mark Waterworth has been working in the customer relations team for almost 10 years.**

"I deal with billing queries as well as wastewater and water operational issues and also provide support to the contact centre when they get higher than usual numbers of calls, like last winter. Our targets focus on resolving the complaint first time round and we always try to look at the complaint through the eyes of the customer. It is very important to be able to explain things clearly and to apologise where we have made errors."

### Tariffs and affordability

Many of the issues around affordability and bad debt are sensitive and we continue to advocate an extension of options on tariffs. Our proposals would offer significant assistance for our most vulnerable customers and would help reduce bad debt. However, they have yet to be taken up by the regulators.

Our website has more information on our Watersure, Aquacare and Solow tariffs for customers managing medical conditions, in receipt of certain benefits and for households using less than 75 cubic metres of water a year.

Bad debt continues to be a problem. For more detail on how we approach this see pages 20 and 69.

The Anglian Water Assistance Fund offers help to those experiencing genuine hardship (see page 127).

Down by


**1.9%**

In line with our long-term strategy, average bills reduced by 1.9% in 2010/11

## Meeting the needs of our business customers

Our industrial tariffs have widened to include an additional 500 large water users, allowing us to manage our network and infrastructure better and plan ahead to meet future needs. Under the new tariff customers are provided with water loggers allowing access to near real-time water consumption data. Unexpected increases in water use, that can indicate underground leaks or inefficient production processes, are quick and easy to spot and to put right.

With our help, more and more companies are taking steps to manage their water use more efficiently and responsibly by educating their employees and customers on the value of water. We were pleased to support Cranfield University's Green Week for students, employees and local businesses with practical advice and free water-saving devices.

 Contact our Business Customers Team on 08457 626 784

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## Water for health, leisure and recreation

Our 10 waterparks welcome over two million visitors every year who enjoy themselves on, in or around the water. Thousands more bird and wildlife watchers come along to our sites across the region. With activities from fishing to sailing, cycling and osprey-spotting, we're a leading provider of the public open space that's absolutely vital to the well-being of the families and communities in our growing region.

We're not just supplying our customers and their families with safe drinking water into the future, we're protecting the biodiversity essential to the quality of life in our region. Rutland Water, Grafham Water and Pitsford Reservoir are all Sites of Special Scientific Interest, just three of the 47 SSSIs we're responsible for.


The many county shows and outdoor events that make a great day out in our region give us many other opportunities to get out and find out what makes our customers tick. In 2010/11 we had conversations with over 5,000 householders and families from Hartlepool to Ipswich as part of a great day out.

Our programme for summer 2011 began at the end of May and is even more ambitious. Interactive displays, street theatre, competitions and activities for children will all bring to life our messages on water efficiency, FOG and unflushables and biodiversity for many more thousands of our customers.

 P 44 and 58

Read more about award-winning Rutland Water

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 Visit our leisure and recreation pages: [www.anglianwater.co.uk/leisure](http://www.anglianwater.co.uk/leisure)

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..... Moments of peace and tranquillity  
..... fishing at Grafham Water

# IMPROVING OUR EFFICIENCY AND FLEXIBILITY

To meet our customers' expectations we continually review ways of reducing cost, improving our efficiency and increasing our flexibility.

We have now completed a year-long review of all support service functions. In addition, our broader Shaping the Future initiative has improved our ability to anticipate and respond to the needs of our customers. More flexible patterns of working and the location of some back-office work off-shore have improved service and delivered considerable savings.

This year our focus on finding more efficient ways of working delivered some £15 million of savings. This helped us to offset the significant upward pressure on our operating costs during the year, from both general inflationary pressures in a year when the average RPI increase was 5.0% and specific cost factors, such as rates.

We also welcomed some new business partners, switching to new water network partners and re-letting our IT support contract to Capgemini.

Energy represents 12% of our operating costs and we have a significant and continuous programme to reduce our energy consumption on our sites. We maintain a strong focus on the energy efficiency of new investments, and in more energy efficient ways to operate our current plants.

We now generate close to 5% of our own electricity needs through renewable power plants based on our own sites, with plans in place to increase this by the end of AMP5. Read more on energy management on pages 22 and 48 to 51.

This year we've also successfully made the link between cutting operational and embodied carbon, and cutting costs with more robust capital planning processes putting the emphasis on designing out carbon.

**OUR GOAL** Get it right first time, every time  
Zero waste



This year we delivered some £15 million of efficiency savings.

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P48 to 51  
Read more about cutting costs by cutting carbon

## Shaping the Future

Our Shaping the Future initiative has modernised working practices, single-manning some jobs where appropriate, and getting a better match between staff availability and when work needs to be done. This has improved our efficiency and service to customers.

This year we also off-shored some of our back-office customer service work to gain efficiencies in cost and response times. We were able to do this without redundancies, retraining UK-based colleagues to provide additional contact centre capacity to take customer phone calls. This continues our firm commitment to retaining contact centres in our region as the best way to deliver great service to our customers.

### Awards for innovation and partnership at Rutland Water

We completed our £116 million expansion near our Rutland Water reservoir at the very end of last year. The new water treatment works at Morcott is now on stream, producing up to 90 million litres of drinking water every day for customers across the south and east Midlands. The project also involved creating a new pumping station at Empingham, and upgrading other parts of the existing supply system, including 34 kilometres of new underground water main.

Innovation was crucial to the success of this expansion project, contributing to driving down costs and to managing or avoiding risks. We pioneered new ways of working with our major contractors, achieving a 15% reduction in the total cost, with collaborative working also driving safety and quality.

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

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

 P38

[Read more about our customer service](#)

We reused or recycled 97% of construction waste

 P36

[Read more about this project's contribution to resilience of supply](#)


 P58

[Read more about protection of wildlife habitats at Rutland Water](#)

## Robust capital delivery planning

Building on the successful project management processes that delivered such high levels of efficiency and value during the project at Rutland Water, our new common capital delivery process is a key AMP5 initiative

The AMP5 capital delivery process aims to achieve the efficiencies required in the 2010/15 business plan. It emphasises the importance of planning, with a front-end focus on definition, optimisation and integration. In particular our new process concentrates on reducing cost where most of the money in the capital process is spent - in the construction phase. As well as cutting costs, this rigorous investment and project management process will make a significant contribution to achieving our goals on carbon reduction

 P 48 to 51

[Read more about our carbon goals](#)

## Collaborative working

The @oneAlliance is committed to excellent project and financial management and is responsible for delivering more than half of the company's capital schemes in AMP5

Bringing together the experience and expertise of seven major contractors in a series of high-performing multi-disciplinary capital delivery teams, the Alliance adopts one culture and brand, working collaboratively to implement our capital delivery process. In particular, we have taken the lead to ensure that at every level the Alliance shares our commitment to stringent health and safety procedures

[Our @oneAlliance partners](#)

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# MEETING THE CHALLENGE OF CLIMATE CHANGE

Climate change is one of the biggest challenges to our business. Projections suggest hotter, drier summers which may have an impact on security of supply in the long term. At the same time the anticipated growth of population and development in our region will significantly increase demand

**OUR GOAL** Effective management of the impact of growth and climate change in our region

Our strategic response is to be prepared for the challenges of climate change and so **adapt** our operations and processes. We are also working hard to lessen, that is, **mitigate** our impact on the environment

**OUR GOAL** Reduce our operational carbon emissions by 10% in real terms by 2015 from 2010 baseline

### Adaptation measures

- Taking a lead on climate change policy, regionally, nationally and internationally
- Protecting our most important assets from flooding
- Managing demand effectively
- Encouraging our customers to love every drop
- Increasing the resilience of our drinking water supply network

**OUR GOAL** Halve our embodied carbon in new assets we build in 2015 from a 2010 baseline

### Mitigation measures

- Reducing our reliance on grid electricity
- Increasing our use of renewable energy
- Managing and reducing operational and embodied carbon in our processes, plant and new assets

Our Managing Director, Peter Simpson, works with other leaders from major UK, EU and global companies through the Prince of Wales's Corporate Leaders Group on Climate Change



## Leading on adaptation


In January 2011 we submitted our Climate Change Adaptation Report to the Department for Environment, Food and Rural Affairs (Defra), as required under the new reporting power in the Climate Change Act 2008. Following considerable involvement in the formulation of policy and the statutory guidance, our report detailed our climate change risk assessment methods and the actions we are taking to manage such risks.

We have continued to be heavily involved in shaping the climate change mitigation and adaptation response at local, regional and national levels. We have worked closely with Defra, Department of Energy and Climate Change (DECC) and the Adaptation Sub-Committee on shaping the National Climate Change Risk Assessment, and continue to do so for the National Adaptation Plan. We also work with our regulators (Ofwat and the Environment Agency) and various non-governmental forums, including the Corporate Leaders Group, the CBI and the Water UK Climate Change Network.

At a local and regional level we have strong links with groups and working parties including Environment Agency teams, local resilience forums, county climate change partnerships and Shoreline Management Plan review groups.

Our Love Every Drop thought-leadership platform will make clear the link between water, energy use and the potential for significant reductions in carbon emissions through the more efficient use of water.

The report is available on our website

 **Read more online** [www.anglianwater.co.uk/carbonmanagement](http://www.anglianwater.co.uk/carbonmanagement)

**Our Small Steps Big Impacts** booklet summarises what we are doing to adapt our business to a changing climate and lessen the impact of our operations on the environment

 **Download our report at** [www.anglianwater.co.uk/climatechange](http://www.anglianwater.co.uk/climatechange)

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## Our energy and carbon management strategy

### Energy

Around 89% of our greenhouse gas emissions result from our consumption of electricity, gas and fuel oil. In October 2010 we confirmed our ambitious goal to reduce our operational carbon emissions by 10% in real terms by 2015 from a 2010 baseline. In line with this goal we have continued to work to reduce our energy consumption and increase the proportion of the energy we generate on site from renewable resources. This year we've met our energy targets, delivering savings of 11.9GWh (full year effect).

As energy represents 12% of our total operating costs, our energy initiative makes a vital contribution to our continued success. Investment in self-generation also increases our resilience.

### Our energy initiative

Our energy initiative is now in its fifth year and continues to deliver significant reductions in cost.

- Cost savings of £11.6 million to 2009/10
- An additional £1.4 million saved in 2010/11

Our dedicated Energy Team, supported by suppliers and colleagues across the business, leads the identification and delivery of energy efficiency projects.

- Trowse Main Sewage Pumping Station: £236,000 invested in new pumps delivering annual energy savings = £61,400 every year
- Mumby wastewater treatment works: £3,500 invested in controlling flow and pressure delivering annual energy savings = £5,300 every year

### Reducing demand

We actively manage our power consumption to minimise costs, where operationally possible, by scheduling our energy usage to optimise benefits from our energy tariffs. This includes reducing our power consumption in response to *Triad-warnings*, a system based on predictions of peak national electricity demand between November and February. It enables businesses like us to manage our own electricity demand at these specific times and results in considerable financial savings.

We generate an income from our standby diesel generators, making them available to the National Grid at times of heavy demand.

Read more online [www.anglianwater.co.uk/carbonmanagement](http://www.anglianwater.co.uk/carbonmanagement)

**Generating our own renewable energy**

This year we generated over 39 GWh of renewable energy (2009/10 277 GWh) and plan to meet our target of 86.8 GWh annually by 2015

The amount of renewable energy we generated this year is enough to power a large village of around 10,000 homes for a whole year

We have achieved this by expanding our fleet of Combined Heat and Power (CHP) engines, adding six this year at sites in Colchester, Cliff Quay, Cambridge and Basildon, with a total of 18 CHP engines now operating at wastewater sites across our region

Our ambition for increasing power generation from renewable resources is closely linked with our policy on the recycling and re-use of bio-solids. These engines are powered by the biogas from our wastewater treatment process. The bio-solids treated to the highest standards and branded as Nutri-bio, are in great demand by the region's farmers as a valuable soil conditioner

2010/11

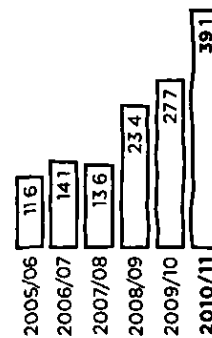
- 60% of bio-solids treated to the *enhanced* standard
- Over 400,000 tonnes beneficially recycled as the soil conditioner, Nutri-bio

**Stabilising our energy costs**

In addition to reducing our consumption, we are taking action to protect ourselves against rising prices by managing our energy contracts carefully

- We use a comprehensive hedging programme to manage our exposure to wholesale energy prices, and over the last two years we have progressively locked in over 95% of our wholesale energy costs for the next four years. We continue to specify and procure our energy contracts carefully in order to obtain the greatest benefit for the company. We are committed to robust management of our supply contracts to minimise the potential for over-billing
- Our extensive smart metering programme continues, with around 90% of our electricity consumption now read remotely. We've found that smart meters are hugely superior to traditional manual reading, enabling more accurate billing, improving financial control and providing us with the detailed data we need to monitor and maximise site efficiency

Renewable electricity GWhs



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## Carbon

Managing and reducing operational and embodied carbon in our processes, plant and new assets is a key aspect of our strategy to mitigate the impact of our operations on climate change. We also recognise that reducing carbon helps us make our business more sustainable. It also delivers considerable savings across our operational and capital costs.

### OUR GOAL

Halve our embodied carbon in new assets we build in 2015 from a 2010 baseline

Our strategy on carbon is **measure, manage and reduce**.

Over the next five years our goals are

- 10% reduction in carbon equivalent operational emissions from 2010 levels (493,702 tonnes) by 2015
- Halve the embodied carbon in new assets we build in 2015 compared to identical assets built in 2010


## Measure

In 2010/11 our carbon emissions were 498,115 CO<sub>2</sub>e. This is up slightly on last year (493,702 CO<sub>2</sub>e), an increase directly attributable to the additional energy requirements to pump and treat significantly more water than normal in order to maintain customers' supply during the severe winter. A further increase in the amount of renewable power generated and success in delivering energy saving projects have mitigated any further increase in annual emissions.

We're exploring a number of ways of reducing our carbon footprint, including strict project management and evaluation and the development of innovative technologies in both our water and wastewater operations.

In 2010/11 we achieved CEMARS (Certified Emissions Measurement and Reduction Scheme) in compliance with the requirements of ISO 14064-1:2006. This provided external verification of our carbon measurement and reporting. During the year a positive audit from Ernst & Young also confirmed our governance and management processes for the new Carbon Reduction Commitment (CRC).

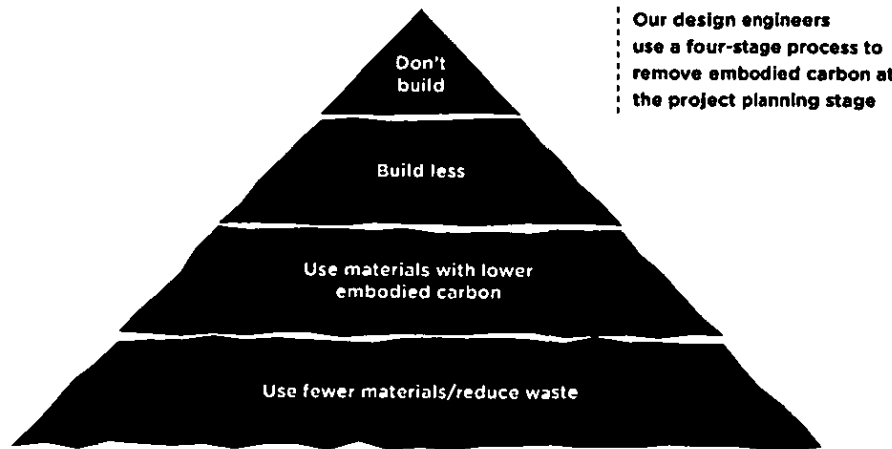
- In 2010, the UK Government launched CRC - a new carbon-related tax. During 2012 we will purchase allowances to cover our emissions at a cost of around £5 million.
- Further information is available in our annual Greenhouse Gas Report, produced in line with DEFRA guidance on measuring and reporting GHG emissions.

 Download our report at [www.anglianwater.co.uk/carbonmanagement](http://www.anglianwater.co.uk/carbonmanagement)

## Manage

### Designing out carbon

We're aiming to halve the carbon embodied in every new asset we create, which is why in this, the first year of the AMP period, designing out carbon at the planning stage is a key element of our management of capital projects. Using specially developed software, we measure both embodied and operational carbon emissions at a number of different stages to challenge and track the carbon impact and then help us and our contractors cut carbon out.



In other projects, innovative technology allows us to extend capacity without the need for any large-scale construction.

### Case study: More for less

One example this year is our Bedford wastewater treatment works, where we are expanding our treatment capacity to the equivalent of an additional 30,000 population. New processes using less oxygen than older methods mean we can treat the greater volumes and concentrations of effluent largely within existing structures at the works. This cuts the need for new building, reducing our embodied carbon. In addition, the new processes use less energy, lowering our operational carbon emissions and reducing costs even further.

## Reduce

### Drop CO<sub>2</sub> campaign

Drop CO<sub>2</sub> encourages colleagues across the business to take an active part in reducing carbon emissions. Initiatives include a popular energy league table which encourages competition between our offices, sites and teams and allows us to recognise and reward employees' efforts to reduce our energy consumption and carbon emissions. The campaign also allows us to promote teleconferencing and car sharing to minimise travel.

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## PLANNING AND INVESTING FOR GROWTH

We play a major role supporting economic development and housing growth in our region with plans to invest £588 million<sup>1</sup> by 2015, supplying water and connecting hundreds of thousands of new homes to our wastewater network.

We're renowned as leaders, contributing to a network of productive relationships at local, regional and national level. We also draw on the considerable expertise of the many internationally known educational, scientific and technological institutions here on our doorstep.

We're the largest of the water companies by area, covering 27,500 km<sup>2</sup>. The geographical diversity of our region is more than matched by the range and extent of the communities we serve and support. We also contribute to economic development with innovative approaches to the provision of cost-effective and sustainable infrastructure.

Every year we welcome tens of thousands of our customers of the future to our education centres. The fun continues at our 10 water parks. They play a vital role in the health and well-being of families and our growing communities, and provide award-winning wildlife habitats of international importance.

### OUR GOAL

Effective management of the impact of growth and climate change in our region

<sup>1</sup> At 2007/08 prices

## Working with others

In November 2010, we were sponsors and played a leading role in Cambridge University's Sustainable Leadership Programme workshop on the next big step forward for water stewardship

We've also played a leading role in the debate around the reform of the water industry. We contribute to a number of competition and policy bodies. This year we published two major reports on water resource allocation and trading (see page 16)

The response to Love Every Drop, our long-term campaigning platform launched in the autumn of 2010, has been overwhelmingly positive and enthusiastic. Even in the early stages of this transformational initiative, Love Every Drop has tapped a nerve, inspiring colleagues, customers and key stakeholders to work with us to ensure sustainable water services are available into the future.

## Supporting growth

**We're spending £12 million supporting growing industrial demand on South Humberside.**

The economic downturn has had a considerable impact on many households in our region. Development has certainly slowed, with as a result, approximately 25% fewer new connections to water and wastewater services than anticipated.

However, on the whole, our region is more resilient than some other areas, and throughout the year we have supported growth opportunities for several business customers, exploring development of the local supply infrastructure or alternative water sources.

The economic downturn has not resulted in any major cancellation of projects, and in particular we continue to receive new development enquiries for the South Humber Gateway.

The banking crisis has, however, made it difficult for companies to obtain debt finance and some projects have been delayed as a result. Overall demand for water from business customers has fallen slightly in recent years, largely thanks to the efficiency measures they are taking and which we encourage and support.

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**Read more about Love Every Drop**

Download our reports from our website. Go to About us and click on Future to see our recent publications.

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## Love Every Drop is the future

This year we met close to 45,000 young people from our region, educating the next generation on the value of water as our most precious resource in our dry and fast-growing region. Some 20,000 mainly Key Stage 2 youngsters experienced our award-winning education programme at our three purpose-built education centres or in classes and assemblies in their own schools. Others joined us at special events for fun sessions that get across serious messages on using water wisely. Our programme also encourages healthy lifestyles and works with secondary school students too to promote awareness of the environment and climate change.

Our education managers get out and about too, meeting groups from across our community, this year including students at careers fairs, curious members of the University of the Third Age and housing association employees and residents. They also contribute to events engaging domestic and business customers supporting our water efficiency and our fats, oils, greases and unflushables campaigns.

### Towards a more sustainable built environment

Although development has slowed in our region, the population is growing and developers are responding to the demand for new homes. We're working with them and with local planning agencies to manage the risk of surface water flooding. There's more on sustainable drainage systems (SUDS) on page 37.

Our education centres in Leighton Linlade, Chelmsford and Corby received the Quality Badge from the Council for Learning Outside the Classroom. This nationally recognised award is a clear sign for schools that bringing children to the education centre will provide a safe, top-quality experience.

Sustainable urban drainage enhances the environment and provides valued green space in Peterborough.



### Case study: Re-using water in eco-homes

Twenty-nine Huntingdon families got the keys to their brand-new eco homes last summer. We supplied regulatory and technical expertise, working with Circle Anglia Housing Association, Hill Partnerships and Huntingdon District Council, to help householders live sustainably and affordably.

Built to Level 5 of the Code for Sustainable Homes, integral water efficient appliances, fittings and processes mean each resident should use just 80 litres of water a day.

For more information on harvesting water and water reuse systems see our Drinking Water Quality report, available on our website [www.anglianwater.co.uk/dwq](http://www.anglianwater.co.uk/dwq)

<sup>1</sup> Grey water is the term used to describe water that has been used for laundry, washing dishes, showering and bathing. It can be reused on site, for example, to flush toilets and water gardens.

Eco-homes in Huntingdon feature green roofs and reuse grey water<sup>1</sup>, cutting each resident's daily consumption by around 55 litres.

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## IMPROVING THE ENVIRONMENT AND ENHANCING BIODIVERSITY

We play a leading role and a vital part in protecting the biodiversity of the east of England's distinctive environment. Seeing the big picture and taking the long-term view are central tenets of our water stewardship strategy and our Biodiversity Action Plan.

### OUR GOAL

Effective management of the impact of growth and climate change in our region

Water is our most precious resource and we aim to learn from and work with nature across the whole water cycle from improving the quality of the raw water we abstract to the return of clean, treated wastewater to our water courses

### OUR GOAL

No pollutions

This year we maintained high levels of performance for our wastewater operations, with our best ever performance on serious pollution incidents. Twenty blue flags will be flying at our beaches this coming summer. Performance at our wastewater treatment works continues at the high levels we achieved last year.

At the other end of the cycle, our work with the agricultural community is bringing results on improved raw water quality, benefiting wildlife and habitats throughout our region.

In the five years to 2015 we're investing £267 million on improving the environment, increasing protection for the plants, animals and habitats in our region.

Our work on improving the environment and enhancing biodiversity was recognised with a place on the shortlist for *The Guardian's* Sustainable Business Awards. In addition, we have won awards from Business in the Community and the British Trust for Ornithology. Our Biodiversity Field Guide and intranet site are aimed at employees and this year won a Global Green Award for Internal Communications.

## Water quality - returning wastewater to the environment

Treating wastewater before returning it to the environment is an important part of what we do. We work hard to comply with the standards set by the Environment Agency for discharges. Everywhere possible, we do our best not just to meet those standards but to exceed them. In fact, we've set ourselves the ambitious target of no pollution incidents. This year's performance demonstrates the extent of our commitment to that goal, as we continue to deliver sustained and improving performance on wastewater compliance, driving the number of serious unconsented pollution incidents down from eight in 2009 to two in 2010 (Category 1 zero incidents, Category 2 two incidents).

### Bathing water quality

Bathing water compliance levels were once again very high in our region.

**Twenty beaches in our region are eligible to fly Blue Flags in 2011 (2010 15).**

All of the 47 bathing waters in our region met the *mandatory* standards of the Bathing Water Regulations for the ninth year running. In addition, 40 bathing waters (85.1%) also met the Regulations' more stringent *guideline* standards (2009 76.1%).

Water quality at *guideline* level is one of the 32 requirements a beach must meet to be awarded Blue Flag status, which also considers a range of other environmental and amenity factors. Application for Blue Flag status represents a considerable financial outlay and is at the discretion of individual resorts.

We are looking at ways to improve the value of information made available to surfers, swimmers and other bathing water users. Current pilot studies suggest that by integrating beach and tidal modelling data with information on our wastewater operations, we may be able to provide more constructive time-sensitive information on the quality of bathing waters. We will continue to explore this, working closely with local authorities, NGO stakeholders, and the Environment Agency.

### RiverCare

Volunteers adopt stretches of river in our award-winning RiverCare project, managed on our behalf by Keep Britain Tidy. More than 40 teams of community volunteers around the region gave 17,000 hours of their time, carrying out regular litter picks and biodiversity checks.

### Biodiversity Action Plan with 60 high-priority species

Our Biodiversity Action Plan (BAP) 2010/20 details our plans for the strategic and long-term management of biodiversity on land we own. We completed our first BAP in 2009, and this second in the cycle of BAPs focuses on identifying the top 200 water and wastewater sites where we think there is the greatest potential to take action to enhance biodiversity.

Our BAP defines the 19 habitat types we've identified on our sites and aims to increase the numbers of 60 priority species of birds, mammals, plants and insects.

Our biodiversity surveyor is exploring each of our 200 designated BAP sites to develop a database on species population and assess potential for habitat development.

To emphasise the importance of the work we do on species protection and habitat enhancement under our BAP, we've developed our award-winning Biodiversity Field Guide. Armed with the Guide, our employees can identify our priority species and report sightings. The associated intranet site also runs a popular and visually stunning gallery of photographs taken by our employees.

In this year's annual Business Bird Challenge run by the British Trust for Ornithology, Rutland Water and Alton Water won two national awards, recognising their importance as havens for birdlife.

Rutland broke all records to win the Major Wetland Bird Count Award, with no fewer than 205 different species of bird. This was the highest bird count of all entrants in 2010 and the highest count ever recorded in the 16-year history of the challenge.

The Alton Water reservoir near Ipswich won the Large Wetland Community Award in recognition of its dedicated volunteers, who work tirelessly to maximise the site's potential for wildlife.

... A Big Tick from Business in the  
... Community for our RiverCare  
... project, run in partnership with  
... Keep Britain Tidy

## Nine lagoons now complete at Rutland Water

We made sure that habitat protection for the wildlife on our Rutland Water reservoir was integral to our £116 million extension to the nearby Morcott water treatment works. To minimise the impact of increased abstraction, we created a total of 85 hectares of lagoon habitat to the west of the existing reservoir. The last of these areas was completed in December 2010 and together these lagoons now provide substantial new habitats including wet ditches and scrapes currently benefiting and encouraging a record-breaking 205 species of bird.

## Osprey update 2010/11

Rutland Water is home to the first ospreys to be re-introduced into England. We work in partnership with the Leicestershire & Rutland Wildlife Trust (LRWT) on a unique project to increase UK osprey numbers and to protect the ospreys and their habitat.

- Twelve chicks hatched from five pairs in 2010
- Around 70,000 people every year visit the wildlife centre on the banks of Rutland Water run on our behalf by LRWT

## 12 OSPREY CHICKS

hatched from five pairs in 2010

## Case study: Leading on bio-security

### 'Killer' shrimp strikes at Grafham

In September, anglers discovered an invasive species of shrimp at our Grafham Water reservoir in Cambridge. *Dikerogammarus villosus*, commonly known as the 'killer shrimp', is a voracious predator. It can cause significant damage to native freshwater invertebrates, and even to young fish.


Previously unrecorded in the UK, the shrimp could have reached Grafham in a variety of ways. It may have been introduced on boat hulls, in angling equipment, or during fish-stocking operations. It's even possible the shrimp was brought in by birds. The invasive species has since been discovered at two sites in Wales.

We worked closely with the Environment Agency to immediately put precautionary bio-security measures in place around Grafham Water to contain the shrimp. This included insisting all water users check, clean, and dry their equipment before leaving the site. In addition, special filters were designed and installed to prevent the shrimp leaving the reservoir.

Drinking water quality was unaffected. Bio-security measures remain in place, and monitoring of the species continues at Grafham Water.

# WORKING FOR ANGLIAN WATER

Around 3,700 people work directly for Anglian Water. Another 7,000 work for our contractors and partner organisations. That makes us one of the largest employers in the region and an important part of the lives of the families in our communities.

**OUR GOAL** To be regarded as a leading employer in our region 

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We want to be a leading employer in the UK, making Anglian Water a company people are proud to work for. This means helping them to stay fit and healthy, providing professional and technical skills development and interesting, worthwhile career opportunities.

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However, to meet our customer expectations we do need to look at ways of reducing costs, improving our efficiency and increasing our flexibility. This has meant expanding our offshore capacity and retraining some UK-based staff for front-line customer-facing roles. We have also worked with our trade unions on changing working hours to provide increased flexibility in scheduling work, and those changes came into effect this year.

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Our focus on health and safety is unwavering, and in 2010/11 we launched our *make it safe, make it home* campaign not just to colleagues across our business, but with our major contractors.

## Engaged and involved

Making our goals a reality depends on the commitment and expertise of our people. Everyone has a role to play in making a real difference to our customers and our communities. Getting ideas and feedback from our staff is a key way in which we can involve people in improving our business. The Love Every Drop campaign was developed through workshops with our people who provided honest feedback on our ideas and the best way to implement them.

 **P43**  
Read more about improving our efficiency and increasing our flexibility

 **P63**  
Read more about health and safety

*Open House*, an elected employee forum, works alongside our trade union representative body to provide the widest possible employee feedback and involvement. It continues to provide lively and frank input on a range of company processes and initiatives.

**We love what you do**

Acknowledging and rewarding employee contribution is a vital part of involving our people. As part of *Love Every Drop* the company encourages managers to put even more emphasis on recognising people for the positive things that they do, with recognition ranging from simple thank you postcards to cash awards.

Later in 2011 we are launching a new style awards event - *We love what you do* - with award categories linked to key business goals.

**Setting consistent standards**

Much of the work we do is supported by our partners and contractors from reading meters to mending the network, building new works and training our employees. Ensuring we are all working with the same objectives of efficiency and customer care helps us to meet our targets.

Re-letting our major technical training contract to three suppliers rather than one means that we have been able to focus on securing specific expertise. We need to make sure that the messages given to our employees through training are absolutely consistent. By bringing together our key contract managers and trainers from all the new providers we have created a much deeper understanding of our business, culture and strategy. Working collaboratively also helps to share best practice between suppliers.

**Collaborating for success**

Working in an open and honest way with our contractors gives us a better understanding of our costs and helps us to manage an improved service in repair and maintenance of the network for our customers. To promote this collaborative way of working we have held workshops for over 100 key influencers from Balfour Beatty, May Gurney and Anglian Water resulting in a shared purpose, adopting the best person for the task and constructive working relationships.

*"I came away with a greater appreciation of how working together as one team plays a vital part in driving efficiencies"*

**Andy Smith, Leakage Delivery Manager East**

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## Building talent

We continue to bring graduates and apprentices into the business to resource talent for the future

### Briony Tuthill, Collection Manager, Wastewater

"I graduated with a BSc in Geography from the London School of Economics, and wanted a career in utilities. I chose Anglian Water's Graduate Management Programme because it was a broad management scheme that offered an excellent range of opportunities

Right now, it's my job to ensure resources are in the right place at the right time - and that there are no pollution incidents in the network. Sewer flooding is one of the biggest issues I have to deal with. I love the fact that everything is connected within the business - which means you get to influence a lot of people both inside and outside of your direct remit. Knowing that I'm trusted to take charge of managing a multi-million pound budget gives me a great sense of achievement as well."

### Oliver Warren-Ward, Motor Vehicle Trainee

"To get a job with a major company like Anglian Water is always a good thing. My dad always said to me, 'Get yourself a trade' and that's what I've got now. I didn't know what I was going to do with my career. I never knew that Anglian Water mends its own vans, everyone thinks they just supply water. I can't fault it as a company, the training is brilliant - if you need it, you get it. Also, the benefits are excellent, a great pension and private health care is worth its weight in gold. I can't think of a better place to work."

## Professional standards

At technician level we are investing in helping our people to gain nationally recognised qualifications

Developing good performers within the company is also a great way of developing future managers. This year we have tripled the number of places on the Institute of Leadership and Management Certificate in Leadership and Management programme for those technicians and team members who may not have gained academic qualifications in the past but who are keen to develop their careers with the company. We are also sponsoring those who want to extend their qualification to diploma level.

As part of our programme of work with higher education and professional institutions we successfully piloted an innovative distance-learning professional development route for operational managers with Staffordshire University. This online development is endorsed by the Chartered Institution of Water and Environmental Management (CIWEM) and helps candidates to meet the competencies required for membership.



# KEEPING EVERYONE HEALTHY AND SAFE

It's our strong belief that all work-related accidents are preventable. Whatever the job, however urgent the deadline, health and safety should always come first for our employees, contractors and the public.

**OUR GOAL** Our long-term aspiration is no accidents and no harm

Our *make it safe, make it home* campaign focuses everyone who works with us on our Health and Safety Charter

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

This year we achieved our lowest ever accident frequency rate 0.31 (2009/10 0.37), and have more than halved the number of serious (Category 1) incidents from 66 to 32. For the fifth year running, we've achieved a Gold RoSPA achievement award.

## Measuring our performance

We measure our health and safety performance in a number of different ways

**CHaSPI.** The Health and Safety Executive voluntary Corporate Health and Safety Performance Index provides a rounded and overall picture of health and safety performance. This year we achieved 7.8 out of 10. This compares well with the mean score of 6.9 across 162 participating organisations.

**Category 1 incidents:** the number of accidents or near misses that resulted, or could have resulted in either death, major and multiple fractures, amputation or permanent disability

Measure	2008/09	2009/10	2010/11
Accident Frequency rate	0.39	0.37	0.31
Category 1 incidents	99	66	32

Accident Frequency Rate and CHaSPI reporting data includes both direct employee and key contractor data

We continue to compare our performance on health and safety with other water utilities through benchmarking

### Double gold

For the fifth consecutive year we have achieved a Gold RoSPA (Royal Society for the Prevention of Accidents) achievement award. In addition, we are particularly proud of the additional recognition from RoSPA of their Gold medal for sustained health and safety performance

Our health and safety system received **BS OHSAS 18001** accreditation (an internationally recognised standard for health and safety) in 2009 and shows continuous improvements year on year

Our health and safety systems are formally reviewed by accredited external assessors at least every six months

### *make it safe, make it home*

Our Health and Safety Charter stresses the role of personal responsibility in keeping everyone safe. This year a series of workshops for 2,000 frontline employees, led by psychologist Eddie Woods, set out to challenge beliefs and change behaviours to help achieve our target of zero accidents. A DVD of Eddie's inspiring presentation has helped to spread the messages to office-based staff. These steps have resulted in a significant reduction in our accident and severity rate during the year.

### Keeping everyone fit and well

To complement our focus on site safety, our Occupational Health team ran roadshows for more than 1,000 employees to help improve their long-term health and well-being

### Sickness absence reduction

In order to deliver our efficiency targets we recognise that we need to manage all our resources effectively. During the year we launched a new policy, backed by training for line managers, to help them support employees and manage sickness absence more effectively. Absence fell during the year from an average of 7.68 days per person per year to 6.40 days.

### Our programme to support employees

All employees continue to have access to a free 24/7 Employee Assistance Programme, enhanced this year with increased support, and including free face-to-face counselling for those who need it.

A private health care scheme and same-day physio advice service ensures prompt support and medical help to all employees when they need it.

### Keeping our suppliers and contractors safe

We have worked closely with the Health and Safety Executive to explore innovative ways of driving the highest possible standards of health and safety throughout our supply chain. Our Suppliers Safety Conference set out and agreed our joint expectations on health and safety and we are planning follow up events during the remainder of 2011.

In 2010, the @oneAlliance introduced a step change in their behavioural safety culture, by insisting that anyone working on site must carry a valid health and safety passport. The passport is issued to @oneAlliance employees once they have completed a two-day induction course focused on working safely. The workforce of key suppliers to the @oneAlliance has also been invited to go through this induction - ensuring that safety stays the key focus for everyone working on our sites.

## LOOKING AHEAD

Love Every Drop is now the way we do business. We measure performance against our 10 business goals with a robust framework of 100 targets, measures and commitments



Read more about our Business Strategy

Look out for Love Every Drop: One Year On in October 2011.

### Highlights for 2011/12 include

- Planning is well underway on our submission for the next price review and determination, due towards the end of AMP5 and setting out operating conditions for AMP6 - 2015/2020
- In 2010/11 our capital project planning emphasised designing out carbon and building in efficiencies. In 2011/12 more projects will get off the drawing board with a resulting increase in our capital expenditure
- In 2011/12 we launch our social marketing campaign against the fats, oils, grease and unflushables that cost us millions to jet and dispose of every year
- Our Pay-as-you-flow metering campaign continues. We'll be taking our messages on water efficiency to even more customers, installing free Bits and Bobs and making small domestic plumbing repairs where we can to cut consumption
- From October 2011 all private sewers and lateral drains become the responsibility of the water and wastewater companies. We estimate that this change will increase the length of sewer in our ownership by around 80%. We're preparing for this change, including communicating with our customers. More on page 23

- We'll continue our focus on continuously improving services to our customers. Text alerts to mobile phones to let customers know we're on our way will become standard in our wastewater operations in 2010/11
- In the summer of 2010 we celebrated 20 years without a hosepipe ban. That's the way we want to keep it. We're working to manage supply and demand over the summer, as well as planning ahead in case of another winter of extreme temperatures. And there'll be no let up in our war on leakage
- Celebration and consolidation of our BITC Platinum Plus status. The CR Index measures the extent to which companies have built the infrastructure to manage Corporate Responsibility issues as a core business function. At Platinum Plus level the challenge is around the impact that having these processes in place has on commercial decision making
- We're hoping it'll be another great year all round for wildlife on our sites, and in particular for our ospreys at Rutland Water. 12 chicks fledged in 2010, and the staff and volunteers of the Leicester & Rutland Wildlife Trust, who manage the site on our behalf, are on duty 24/7 looking out for this year's nesting pairs and their new young families. Get the latest information at [www.ospreys.org.uk](http://www.ospreys.org.uk)
- We're playing a vital role contributing to quality of life throughout the east of England with our support for leisure, sport, recreation and the arts. Bringing all these themes together, we're delighted to be a sponsor of Northamptonshire's 2011 FLOW project, celebrating water across the county
- There's a huge range of attractions and across our water parks every year. Highlights for 2011/12 include the Four Winds Festival at Rutland Water, the Great East Swim at Alton Water, and the autumn Birdfair at Rutland, Europe's largest specialist meet for bird watchers. We'll also be out and about meeting hundreds of thousands of our customers at county shows across the east of England. For the first time this year we're working with a group of actors to engage our customers in new, fun ways

**There'll be more information in Love Every Drop One Year On in October 2011.**

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# 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 March 2011 are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc (AWSF).**

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

With certain exceptions, the regulatory provisions do not apply to business activities that are not connected with the carrying out of the water and wastewater functions. These business activities are referred to as non-appointed businesses (see note 3 on page 124).

Under Condition F of its licence, Anglian Water is obliged to provide the Water Services Regulation Authority (WSRA) with additional accounting information to that contained in the statutory financial statements. This information is presented in the regulatory accounts on pages 115 to 141.

## Financial results

The consolidated profit and loss account as presented on page 80 is summarised in the table below.

	2011 excluding transactions with AWS Holding companies £m	2011 transactions with AWS Holding companies £m	2011 Total £m	2010 Total £m
<b>Turnover</b>	1,092.3	-	1,092.3	1,099.8
Operating costs (excluding exceptional costs)	(396.5)	-	(396.5)	(386.1)
Depreciation	(248.5)	-	(248.5)	(241.7)
Exceptional costs	-	-	-	(8.8)
<b>Operating profit</b>	447.3	-	447.3	463.2
Net interest payable and other finance charges	(345.0)	193.1	(151.9)	(66.4)
Profit before tax	102.3	193.1	295.4	396.8
Taxation	(28.9)	-	(28.9)	(51.7)
Profit after tax	73.4	193.1	266.5	345.1
Dividends <sup>1</sup>	(255.0)	(193.1)	(448.1)	(280.8)
Transfer (from)/to reserves	(181.6)	-	(181.6)	64.3

<sup>1</sup> Dividends paid to shareholders for the year ended 31 March 2011 were £255.0 million (2010: £87.7 million). The remaining £193.1 million (2010: £193.1 million) is an intra-group dividend paid and committed by the group but retained within the Anglian Water Services Financing (AWSF) group.

In order to show the position of the Anglian Water Services Financing (AWSF) group, the table shows the profit and loss account excluding internal interest receivable by the group from Anglian Water Services Holdings Ltd and the internal dividend paid by the group and retained within the AWSF group of £193.1 million (2010 £193.1 million)

Turnover for the year was £1,092.3 million, a decrease of £7.5 million from the previous year. This reduction principally relates to the regulatory price reduction of 0.4% (including inflation), and a slight reduction in demand from businesses, partially offset by a small increase in demand from household customers.

Operating costs (before exceptional charges) for the year increased by £10.4 million (2.7%) to £396.5 million (2010 £386.1 million). This reflects inflationary pressures across our cost base, particularly rates and pension charges, as well as higher costs for operating newly completed infrastructure assets. These cost increases were to a large extent anticipated and recognised within our AMP5<sup>2</sup> regulatory settlement. Partially offsetting these cost pressures were some £15 million of savings arising from the restructuring announced in the prior year, together with ongoing savings from other efficiency initiatives including reduced power consumption and supply chain savings, and around £11 million of reduced power costs resulting from fixing wholesale energy prices for AMP5.

Due to the continuing difficult economic environment the bad debt charge for the year was £33.7 million (2010 £35.4 million). There was a modest improvement in the collection rates of younger debt, due to new, more focused debt collection initiatives, which helped contribute to a reduction of £1.7 million in the bad debt charge compared with the previous year, although older debt remains a significant problem.

<sup>2</sup> AMP5 - Asset Management Plan period from April 2010 to March 2015

Overall, operating expenditure (before exceptional charges) as a percentage of turnover increased from 35.1% last year to 36.3%.

As a result of the continuing capital programme, depreciation was up 2.8% from £241.7 million last year to £248.5 million.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193.1 million, 2010 £193.1 million) increased by 32.9% from £259.5 million in 2010 to £345.0 million in 2011. This increase is attributable to the non-cash impact of higher Retail Price Index (RPI) in the year on index-linked debt.

**Taxation**

The tax charge has decreased by £22.8 million to £28.9 million. The decrease is mainly due to a reduction in taxable profits but also includes a credit of £8.7 million for deferred tax due to the reduction in corporation tax rates to 26% from 1 April 2011. Contributing to the reduced tax charge was the partial reversal of an amount charged in the prior year for utilisation of Advanced Corporation Tax (ACT).

**Successful first year of AMP5 investment programme**

Gross capital expenditure for the year was £291.7 million, which represents a good start to our AMP5 investment programme and is in line with our overall regulatory output expectations.

During the first year of AMP5 we delivered 19 water quality outputs against a regulatory expectation of 12, 64 kilometres of water mains renewal, 64 kilometres of sewer rehabilitation, and are on track on our first-time sewerage schemes and our sewer flooding prevention and mitigation schemes.

We have had a very successful year in terms of designing and delivering efficiency on the investment programme, outperforming our expectations in the first year of AMP5.

**Financial needs and resources**

In the year to 31 March 2011 Anglian Water raised £130.0 million of new funds and made repayments of £2.5 million on finance leases. In addition to this, Anglian Water paid down accreted indexation of £80.5 million on index-linked swaps as part of a restructuring exercise. Accreted indexation is included in debt and so the impact of the pay down was to reduce debt by £80.5 million.

At 31 March 2011 the group had net borrowings of £4,586.1 million, an increase of £230.9 million over the prior year. Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,188.4 million and cash and deposits of £602.3 million. The increased net borrowings comprise a net decrease of £74.7 million in cash and deposits (which causes net debt to increase) and an increase of £156.2 million in loans and associated costs. The business generated a net cash inflow from operating activities of £632.1 million in the year ended 31 March 2011 (2010: £658.8 million).

**Capital reduction**

On 5 October 2010 the company undertook a capital reduction and converted £850.0 million of share capital into distributable reserves. This is primarily in preparation for the expected conversion to International Financial Reporting Standards in the year ending 31 March 2015, and there is no intended change to dividend policy as a result of this capital reduction.

**Distributions**

Dividends paid to the ultimate shareholders for the year ended 31 March 2011 were £255.0 million (2010: £87.7 million), which equates to £25.50 per share (2010: £8.77 per share on an equivalent number of shares basis). This includes £90.0 million of a special dividend which the company was able to make due to higher dividend capacity, arising from an increase in the regulatory asset base of the company at the conclusion of AMP4 in respect of additional capital expenditure incurred and allowed by the Regulator, together with allowed inflationary adjustments. An intra-group

dividend of £193.1 million (2010: £193.1 million) was paid and committed to Anglian Water Services Holdings Limited (via AWS Overseas Holdings Ltd) in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million. This dividend is retained within the Anglian Water Services Financing (AWSF) group. In total, dividends of £448.1 million (2010: £280.8 million) have been paid and committed at £44.81 per share (2010: £28.08 per share on an equivalent number of shares basis).

The Directors have proposed a final dividend for the year ended 31 March 2011 of £20.00 per share, which is a total of £200.0 million. This distribution has not been accounted for within the 2010/11 financial statements as it was approved after the year end. The proposed dividend includes a special dividend of £70.0 million.

The dividend policy is to pay normal dividends from free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and in practice will be limited to a net debt to regulatory capital value gearing ratio of 83% in the medium to long term. The dividends declared or paid will not impair the ability of the company to finance the Appointed Business, and the dividend policy is compliant with condition F of the licence.

**Liquidity**

The company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2011 the company held cash, deposits and current asset investments of £602.3 million (2010: £677.0 million). The reduction in cash held compared to the prior year reflected pre-funding in 2009/10 of capital expenditure requirements in 2010/11 and the pay down of £80.5 million of accreted indexation on index-linked swaps as part of a restructuring exercise. These resources are maintained to ensure liquidity and the continuation of the company's investment programme. The maturity profile of the company's borrowings is set out in note 17 on pages 98 to 104 of the accounts.



The new debt raised during the year comprised a £130.0 million index-linked bond issued in May 2010. After the year end a further £100.0 million of new debt was secured through a US Private Placement, and EIB credit approval was received for a new £300.0 million facility over AMP5.

The company has access to £355.0 million of undrawn facilities (2010: £225.0 million), to finance enhancement capital expenditure and working capital requirements. In addition, the company has access to a further £355.0 million of liquidity facilities (2010: £355.0 million), consisting of £279.0 million to finance debt service costs and £76.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in default on its debt obligations and had insufficient liquidity.

Throughout 2010/11 the UK Base Rate was held at 0.5% and the continued low short-term rates of interest meant that the significant cost of carry on Anglian Water Services' cash balances continued. Rates received on cash deposits remain at historically low levels and Anglian Water Services has continued to work to reduce the cash held for liquidity purposes in the business to reduce the cost of carry.

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

**Interest rates**

The company's policy, as agreed by the board, is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 54.9% (2010: 53.5 per cent) of the company's borrowings were at rates indexed to RPI, 39.7% (2010: 40.9%) were at fixed rates and 5.4% (2010: 5.6%) were at floating rates.

**Pension funding**

The pension scheme net valuation has more than halved this year, with the FRS 17 liability (net of deferred tax) at 31 March 2011 standing at £68.6 million for all schemes, compared to a liability of £141.2 million at 31 March 2010. This reflects the reduction in scheme liabilities attributable to the change from Retail Price Index (RPI) to Consumer Price Index (CPI) as the relevant indexation link for certain parts of the pension scheme, an improvement in market conditions since the previous year end affecting the scheme assets, and the company making deficit reduction payments of £20.8 million.

**Regulatory accounts**

The regulatory accounts are set out on pages 115 to 141. These show the results of Anglian Water on a non-consolidated basis and provide an analysis of the appointed (regulated) and non-appointed businesses.

**Current cost depreciation**

The current cost depreciation charge - as disclosed in the regulatory accounts - was £301.7 million (2010: £286.1 million).

# ANGLIAN WATER SERVICES BOARD OF DIRECTORS

The Directors' report  
can be found on page 74.

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## Sir Adrian Montague, Chairman

Sir Adrian Montague was appointed Chairman of Anglian Water Group (AWG) in March 2009, and Chairman of Anglian Water Services (AWS) on 29 January 2010. Sir Adrian has been Chairman of 3i Group since July 2010, CellMark Investments AB since 2008 and Michael Page International since 2002. He is also a Non-Executive Director of Skanska AB. Sir Adrian is also Chairman of the Advisory Board supporting the formation of the Green Investment Bank, a Trustee of the Historic Royal Palaces, and a member of the UNECE PPP Private Sector Advisory Board. Sir Adrian was Chairman of British Energy Group plc from 2002 to 2009, Chairman of Friends Provident Group from 2005 to 2009, and Chairman of Infrastructure Investor Ltd from 2002 to 2009.

## Executive Directors

### Scott Longhurst, Managing Director, Finance and Non-Regulated Business

Scott Longhurst was appointed Group Finance Director of AWG in November 2004. In January 2010 Scott was also appointed Managing Director of the Group's non-regulated businesses in addition to his financial responsibilities. Prior to joining AWG he spent most of his career with Shell and TXU Corporation. Scott moved from

Shell in 2000 to TXU and, from early 2001, was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company. In February 2004 he was appointed Group Controller and Chief Accounting Officer of TXU Corporation. Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell encompassing corporate, operating company and joint venture activities across Europe, the Far East and Middle East. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Non-Executive Director of Candover Investments plc.

### Chris Newsome, Director of Asset Management

Chris Newsome is Director of Asset Management at Anglian Water and was appointed in September 2004. Chris is a civil engineer by profession and has spent the vast majority of his career within the water industry, planning for, designing and delivering capital programmes of work. He joined Anglian Water from Yorkshire Water. Chris is a Director of UK Water Industry Research and a Council Member of the Institute of Asset Management. He is a member of the Institute of Civil Engineers.

and the Chartered Institute of Water and Environmental Management. He also holds an MBA from Manchester Business School.

**Peter Simpson, Managing Director AWS**

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

**Jean Spencer, Director of Regulation**

Jean Spencer was appointed as Director of Regulation in May 2004. Prior to joining Anglian Water, she held a number of positions with Yorkshire Water and Kelda, including Head of Regulation, Head of Internal Audit and Regulatory and Accounting Controller. A qualified chartered accountant, Jean began her career at Grant Thornton in 1980. In 1984 she joined the Audit Commission, leaving in 1989 to join Yorkshire Water.

**Independent Non-Executive Directors**

**Christopher Garnett**

Christopher Garnett was appointed in December 2006. He has more than 20 years' experience in passenger transport and was for 10 years, until August 2006, Chief Executive of Great North Eastern Railways (GNER). Since retiring from GNER he has taken on a number of other responsibilities, including being a board member for The Olympic Delivery Authority, Chairman of the Olympic and Paralympic Transport Board, board member of Transport for London, a Non-Executive Director of Aggregate Industries Ltd. He is also a member of the Advisory board of the National Railway Museum and a trustee of the Windsor Leadership Trust.

**Robert Napier**

Robert Napier was appointed in February 2002. He held the offices of Finance Director of Fison Plc's global pharmaceuticals division and Finance Director, Joint Managing Director, Managing Director and Chief Executive of Redland Plc. He is currently Chairman of the Homes and Communities Agency and Chairman of the Met Office, having retired after eight years as Chief Executive of WWF-UK. He is also Chairman of the World Conservation Monitoring Centre, Chairman of the Baynards Zambia Trust and a Trustee of Watts Gallery. Earlier this year Robert stepped down as Chairman of the Governors of Sedbergh School and of the Trustees of the Carbon Disclosure Project.

**John Watkinson**

John Watkinson was appointed in May 2005. For most of the 1990s, he held successive Operations Director roles for both Habitat and Wallis. In 1999, he joined Hamleys plc and later led a successful management buyout of the company and became the Chief Executive of the newly formed Hamleys Group. Between 2005 and 2008, John was Chief Executive of Monsta Group Limited, a retail investment company, which included the Jones Bootmaker footwear business. In 2008, John set up Retail InsideOut, a specialist business practice, and is currently working with a number of retailers and retail suppliers on business growth, recovery, operational improvement and organisational design. John is also a Group Chairman for Vistage International, working as a business coach for a host of CEOs from various industries, and a Non-Executive Director of Buying Solutions, the UK's largest public sector procurement organisation.

**P10**

Read more about our ownership organisation structure

**P20**

Read more about our key risks

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# DIRECTORS' REPORT

**The Directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2011.**

## Business review

On 23 November 2006, the ultimate parent company of Anglian Water Services Limited, being AWG Plc (which changed its name to AWG Parent Co Limited in August 2009), was acquired by Osprey Acquisitions Limited. As a consequence of this, the ultimate parent company of Anglian Water Services Limited became Anglian Water Group Limited, a company registered in Jersey. Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management and 3i.

The Anglian Water ownership structure is detailed on page 10. The information that fulfils the requirement of the Business Review, including a summary of the group's performance, future prospects, key performance indicators and principal risks and uncertainties, are included in the Business Review and Financial Performance sections on pages 2 to 71.

## Common Terms Agreement

The company has a Common Terms Agreement (CTA) with its debt investors. The CTA sets out the terms and conditions of the company's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN. Under the CTA, the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG):

- Anglian Water Services Holdings Limited
- Anglian Water Services Overseas Holdings Limited
- Anglian Water Services Limited
- Anglian Water Services Financing Plc

## Corporate governance

The corporate governance measures put in place at the time of the financial restructuring in 2002 are designed to ensure that the company has the means to conduct its regulated business separately from other companies within the Anglian Water Group, and that all dealings between other companies within the Anglian Water Group and the company are on an arm's-length basis.

The company is required to maintain at least three independent Non-Executive Directors, except for periods where a temporary vacancy exists. The board may include Directors who are also Directors of other Anglian Water Group companies. However, the CTA requires that Executive Directors in this category do not constitute a majority of the Executive Directors. The constitutional documents of each company within the AWSFG provide that all conflicts of interest of Directors must be disclosed and that no Director may vote on any contracts or arrangements between the company and any other Anglian Water Group company if he/she is also a Director of that Anglian Water Group company.

The processes for identifying, evaluating and managing the significant risks to the company and the company's internal control systems are regularly reviewed by the Audit Committee, which reports its findings for consideration by the board of Anglian Water Services.

The members of the Audit Committee are the Non-Executive Directors. The Audit Committee operates to written terms of reference. The terms of reference deal clearly with the committee's authority and duties.

The processes used by the committee to carry out its duties include:

- A review of plans and reports prepared by internal and external auditors
- A review of reports arising from the work of the Risk Management Committee on the effectiveness of risk management

- Discussions with management on significant risk areas
- The review of any significant issues highlighted by the Executive Directors, internal and external auditors

**Financial instruments disclosures**

Details are included on page 68 of the Business Review and in note 17 of the financial statements

**Principal activities**

The company provides around 12 billion litres of drinking water to 4.4 million drinking water customers every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The company receives approximately 950 million litres of wastewater per day from 2.5 million homes, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

**Results and dividends**

The profit and loss account on page 80 shows the group's results and profit for the year. Details of dividends paid during the year and proposed dividends can be found on page 93.

**Health and safety**

Details are included on page 63.

**Directors**

Current Directors of the company are listed on pages 72 to 73. All the Directors served throughout the year.

**Directors' indemnities**

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

**Charitable and political donations**

During the year, Anglian Water donated £40,000 (2010: £40,000) to WaterAid, its recognised charity. Individual requests for sponsorship were declined on the basis that the company's policy is to encourage community involvement rather than charitable donations. In addition, Anglian Water supports employees getting involved in fundraising activities under the *give me five* programme, and this volunteers' committee has raised a further £183,000 (2010: £275,000) for WaterAid.

The Anglian Water Group employee volunteering Scheme, *give me five*, has been supporting local community activities for more than 10 years. The scheme is currently being reviewed following the launch of Anglian Water's Love Every Drop programme in October 2010. A new scheme will be launched in 2011 building on the positive impacts already achieved by employees in their local communities and encompassing the aims of the Love Every Drop programme.

No political donations were made during the year (2010: £nil).

**Research and development**

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

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### Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the company. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. The company's intranet is also widely used as a source of information.

The company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. The company has a series of policies that both inform and guide all employees on the company's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour.

The company also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

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

The company values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

### Policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's Supply Chain Management department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. The company's average creditor payment period at 31 March 2011 was 39 days (2010: 48 days).

### Directors' disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act the following applies:

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

### Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to stay in office and are deemed to be reappointed.

### By order of the board

Claire Russell  
Joint Company Secretary  
27 May 2011



### Registered Office:

Anglian House  
Ambury Road  
Huntingdon  
Cambridgeshire PE29 3NZ  
Registered in England and Wales No 2366656

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

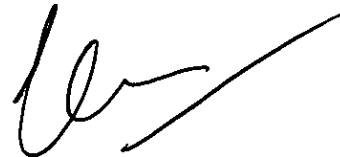
**The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.**

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

The Directors confirm that suitable accounting policies have been used and applied consistently as set out in note 1 to the financial statements (accounting policies). They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2011 and that applicable UK accounting standards have been followed.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Annual Report and Accounts are published and where they are published on the Internet, for maintenance and integrity of the company's website. Uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.



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## Group profit and loss account

for the year ended 31 March

Notes		2011 £m	2010 £m
2	<b>Turnover</b>	<b>1,092.3</b>	1,099.8
	Operating costs		
	- Operating costs before depreciation and exceptional operating costs	<b>(396.5)</b>	(386.1)
	- Depreciation net of amortisation of grants and contributions	<b>(248.5)</b>	(241.7)
4	- Exceptional operating costs	-	(8.8)
3	<b>Total operating costs</b>	<b>(645.0)</b>	(636.6)
	<b>Operating profit</b>	<b>447.3</b>	463.2
6	Net interest payable	<b>(141.6)</b>	(51.8)
7	Other finance charges	<b>(10.3)</b>	(14.6)
5	<b>Profit on ordinary activities before taxation</b>	<b>295.4</b>	396.8
8	Tax on profit on ordinary activities	<b>(28.9)</b>	(51.7)
	<b>Profit for the financial year</b>	<b>266.5</b>	345.1

The results above arise from continuing operations

Notes 1 to 28 are an integral part of these consolidated financial statements

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

## Group statement of total recognised gains and losses

for the year ended 31 March

Notes	2011 £m	2010 £m
<b>Profit for the financial year</b>	<b>266.5</b>	<b>345.1</b>
21 Actuarial gains/(losses) recognised in the pension scheme	86.2	(108.5)
8 Current tax relating to the actuarial loss in the pension scheme	-	31
Impact of change in tax rate on deferred tax on pension schemes	0.3	-
20 Movement on deferred tax relating to the actuarial (gain)/loss in the pension scheme	(24.1)	27.2
<b>Total recognised gains and losses relating to the year</b>	<b>328.9</b>	<b>266.9</b>

Notes 1 to 28 are an integral part of these consolidated financial statements

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## Group and company balance sheets

at 31 March


Notes	Group		Company		
	2011 £m	2010 £m	2011 £m	2010 £m	
	<b>Fixed assets</b>				
12	Tangible assets	4,678.8	4,658.1	4,678.8	4,658.1
13	Investments	1,609.1	1,609.1	1,609.1	1,609.1
		<b>6,287.9</b>	<b>6,267.2</b>	<b>6,287.9</b>	<b>6,267.2</b>
	<b>Current assets</b>				
14	Stocks	9.6	10.1	9.6	10.1
15	Debtors	331.3	311.6	372.3	311.6
	Investments - money market deposits	47.5	78.5	37.5	63.5
	Cash at bank and in hand (including short-term deposits)	554.8	598.5	479.4	574.5
		<b>943.2</b>	<b>998.7</b>	<b>898.8</b>	<b>959.7</b>
	<b>Creditors amounts falling due within one year</b>				
1617	Short-term borrowings	(141.4)	(2.5)	(141.4)	(2.5)
16	Other creditors	(436.1)	(451.8)	(436.0)	(456.2)
		<b>(577.5)</b>	<b>(454.3)</b>	<b>(577.4)</b>	<b>(458.7)</b>
	<b>Net current assets</b>	<b>365.7</b>	<b>544.4</b>	<b>321.4</b>	<b>501.0</b>
	<b>Total assets less current liabilities</b>	<b>6,653.6</b>	<b>6,811.6</b>	<b>6,609.3</b>	<b>6,768.2</b>
	<b>Creditors amounts falling due after more than one year</b>				
17	Loans and other borrowings	(5,047.0)	(5,029.7)	(5,047.0)	(5,029.7)
18	Other creditors	(142.0)	(133.7)	(142.0)	(133.7)
		<b>(5,189.0)</b>	<b>(5,163.4)</b>	<b>(5,189.0)</b>	<b>(5,163.4)</b>
19	<b>Provisions for liabilities</b>	<b>(59.2)</b>	<b>(51.0)</b>	<b>(59.2)</b>	<b>(51.0)</b>
	<b>Net assets excluding pension liabilities</b>	<b>1,405.4</b>	<b>1,597.2</b>	<b>1,361.1</b>	<b>1,553.8</b>
21	<b>Defined benefit pension liabilities</b>	<b>(68.6)</b>	<b>(141.2)</b>	<b>(68.6)</b>	<b>(141.2)</b>
	<b>Net assets including pension liabilities</b>	<b>1,336.8</b>	<b>1,456.0</b>	<b>1,292.5</b>	<b>1,412.6</b>
	<b>Capital and reserves</b>				
23	Called up share capital	10.0	860.0	10.0	860.0
24	Profit and loss account	1,326.8	596.0	1,282.5	552.6
	<b>Total shareholder's funds</b>	<b>1,336.8</b>	<b>1,456.0</b>	<b>1,292.5</b>	<b>1,412.6</b>

Notes 1 to 28 are an integral part of these consolidated financial statements

The financial statements on pages 80 to 113 were approved by the board of Directors on 27 May 2011 and were signed on its behalf by

Sir Adrian Montague  
Director

Scott Longhurst  
Director



## Group cash flow statement

for the year ended 31 March

Notes	2011 £m	2010 £m
(a) <b>Net cash inflow from operating activities</b>	<b>632.1</b>	658.8
<b>Returns on investments and servicing of finance</b>		
Interest received	197.9	197.0
Interest paid	(220.2)	(225.8)
(d) Issue costs of new debt issued	(1.8)	(1.5)
Interest element of finance lease rental payments	(3.3)	(3.4)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(27.4)</b>	(33.7)
<b>Taxation</b>		
Corporation tax paid	(0.5)	(1.6)
Payments to other Anglian Water Group Limited group undertakings	(26.8)	(59.7)
<b>Net cash outflow from taxation</b>	<b>(27.3)</b>	(61.3)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(277.3)	(353.4)
Grants and contributions received	24.0	19.8
Disposal of tangible fixed assets	2.3	0.2
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(251.0)</b>	(333.4)
<b>Equity dividends paid to shareholders</b>	<b>(448.1)</b>	(280.8)
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(121.7)</b>	(50.4)
(c) <b>Management of liquid resources</b>		
(d) Decrease in short-term deposits and investments	18.3	127.5
<b>Financing</b>		
(d) Increase in amounts borrowed	130.0	204.6
(d) Repayment of amounts borrowed	(80.5)	(388.3)
(d) Capital element of finance lease rental payments	(2.5)	(2.2)
<b>Net cash inflow/(outflow) from financing</b>	<b>47.0</b>	(185.9)
(d) <b>Decrease in cash</b>	<b>(56.4)</b>	(108.8)

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

Notes 1 to 28 are an integral part of these consolidated financial statements

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## Notes to the group cash flow statement

for the year ended 31 March

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

	2011 £m	2010 £m
Operating profit	447.3	463.2
Depreciation net of amortisation of deferred grants and contributions	248.5	241.7
Profit on sale of fixed assets	(2.2)	(0.7)
Difference between pension charge and cash contributions	(26.5)	(25.6)
Net movement in provisions	(0.2)	(0.2)
	<b>666.9</b>	<b>678.4</b>
Working capital		
Decrease in stocks	0.4	2.7
Increase in debtors	(20.3)	(50.8)
(Decrease)/increase in creditors	(14.9)	28.5
	<b>(34.8)</b>	<b>(19.6)</b>
<b>Net cash inflow from operating activities</b>	<b>632.1</b>	<b>658.8</b>

### (b) Analysis of net debt

	1 April 2010 £m	Cash flows £m	Non-cash movements £m	31 March 2011 £m
Cash at bank and in hand	188.1	(56.4)	-	131.7
Deposits and investments	488.9	(18.3)	-	470.6
Short-term borrowings	(2.5)	2.5	(141.4)	(141.4)
Loans and other borrowings due after more than one year	(5,029.7)	(47.7)	30.4	(5,047.0)
	<b>(4,355.2)</b>	<b>(119.9)</b>	<b>(111.0)</b>	<b>(4,586.1)</b>

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of 'mark to market' adjustments. Included within deposits and investments above are £423.1 million (2010: £410.4 million) of short-term deposits maturing within three months, which are included in the heading 'cash at bank and in hand' in the balance sheet.

### (c) Management of liquid resources

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

**(d) Movement in net debt**

	2011 £m	2010 £m
At beginning of year	(4,355.2)	(4,287.4)
Net decrease in cash	(56.4)	(108.8)
Decrease in short-term bank deposits and investments	(18.3)	(127.5)
Increase in borrowings	(130.0)	(204.6)
Repayment of amounts borrowed	80.5	388.3
Capital element of finance lease rental payments	2.5	2.2
Issue costs of new debt issued	1.8	1.5
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	(1.7)	(1.7)
Indexation of loan stock and RPI swaps	(109.3)	(17.2)
<b>At end of year</b>	<b>(4,586.1)</b>	<b>(4,355.2)</b>

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## Notes to the group financial statements

BUSINESS REVIEW

### 1 Accounting policies

These consolidated financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice and with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410), except as disclosed in note 1(d) below as relating to grants and contributions

#### a) Basis of preparation

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

In accordance with Section 408 of the Companies Act 2006, Anglian Water Services Limited is exempt from the requirement to present its own profit and loss account. The amount of the profit for the financial year dealt with in the financial statements of Anglian Water Services Limited is disclosed in note 11 to the accounts.

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

#### b) Turnover

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

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

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3.9 million).

#### c) Tangible fixed assets and depreciation

Tangible fixed assets comprise

##### (i) Infrastructure assets

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

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the company's Asset Management Plan, which is independently certified by the Reporter (see glossary of terms on page 144).

##### (ii) Other assets

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

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off 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:

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

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

d) Grants and contributions

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

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

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view as, in the opinion of the Directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12.

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

e) Leased assets

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

f) Investments

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

g) Stocks

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

h) Pension costs

(i) Defined benefit schemes

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

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

(ii) Defined contribution scheme

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



## Notes to the group financial statements continued

BUSINESS REVIEW

### 1 Accounting policies continued

#### i) Research and development

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

#### j) Foreign currencies

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

#### k) Current and deferred taxation

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

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

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

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

#### *Calculation of deferred tax on infrastructure assets*

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

#### l) Bad debts

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

#### m) Related party transactions

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

#### n) Current asset investments

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

#### o) Borrowings

A financial liability is initially recognised net of issue costs incurred. Costs that are incurred directly in connection with the issue of a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument within interest payable.

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.

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p) Financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no trading in financial instruments is undertaken. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates.

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

Gains and losses on derivative instruments used for hedging are recognised on maturity of the underlying transactions. Gains and losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately. Where a financial instrument is used to manage interest cost but is not part of a hedging relationship, gains are recognised on maturity of the instrument and losses are recognised immediately where there is an estimated future net cash outflow over the remaining life of the instrument.

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

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q) Provisions

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

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

r) Redundancy costs

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

s) Onerous lease costs

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

t) Other onerous contract costs

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

u) Exceptional items

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

v) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

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## Notes to the group financial statements continued

BUSINESS REVIEW

### 2 Segmental analysis

The Directors believe that the whole of the group's activities constitute a single class of business

The group's turnover is wholly generated from within the United Kingdom

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### 3 Operating costs

	2011 £m	2010 £m
Operating costs/(credits) before depreciation and exceptional operating costs		
Raw materials and consumables	16 0	91
Other operating costs	284 8	291 4
Staff costs (see note 10)	146 4	141 8
Own work capitalised	(49 2)	(55 9)
Contribution to Anglian Water Assistance Fund	0.7	0 4
Profit on sale of fixed assets	(2 2)	(0 7)
<b>Total operating costs before depreciation and exceptional operating costs</b>	<b>396 5</b>	<b>386 1</b>
Depreciation of tangible fixed assets		
- owned	248 4	241 0
- held under finance leases	8 0	8 1
Amortisation of deferred grants and contributions	(7 9)	(7 4)
<b>Depreciation net of amortisation of deferred grants and contributions</b>	<b>248 5</b>	<b>241 7</b>
Exceptional operating costs	-	8 8
<b>Total operating costs</b>	<b>645 0</b>	<b>636 6</b>

The profit on sale of fixed assets relates primarily to transfers of land to AWG Land Holdings Limited

The prior year exceptional operating costs of £8.8 million related to redundancy and other costs (see note 4) and consist of £7.6 million of staff costs and £1.2 million of other operating costs

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### 4 Exceptional operating costs

	2011 £m	2010 £m
Restructuring and other costs	-	8 8

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

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**5 Profit on ordinary activities before taxation**

	2011 £m	2010 £m
Profit before taxation is stated after charging/(crediting)		
Profit on disposal of tangible fixed assets	(2 2)	(0 7)
Hire of machinery and equipment	2 5	2 7
Other operating lease rentals	2 6	2 2
Research and development expenditure	0 2	0 4
<b>Fees paid to the auditors</b>		
- fees payable to the company auditor for the audit of the parent company and consolidated accounts	0 2	0 2
<b>Non-audit services</b>		
- other services pursuant to regulatory requirements	0 1	0 1
- other services	0 6	0 4
<b>Total fees paid to the auditors</b>	<b>0 9</b>	<b>0 7</b>

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

**6 Net interest payable**

	2011 £m	2010 £m
Other loans including financing expenses	227 3	229 1
Indexation	109 3	17 2
Finance leases	3 2	3 0
Interest receivable from Anglian Water Services Holdings Limited	(193 1)	(193 1)
Other interest receivable	(5 1)	(4 4)
<b>Net interest payable and similar items</b>	<b>141 6</b>	<b>51 8</b>

**7 Other finance charges**

	2011 £m	2010 £m
Unwinding of discount on provisions (see note 19)	1 0	0 1
Defined benefit pension scheme (see note 21(f))	9 3	14 5
<b>Other finance charges</b>	<b>10 3</b>	<b>14 6</b>

## Notes to the group financial statements continued

### 8 Taxation

	2011 £m	2010 £m
a) Analysis of tax charge in the year		
Current tax		
UK corporation tax	24.5	38.0
Adjustments in respect of previous periods	(10.7)	14.8
<b>Total current tax charge</b>	<b>13.8</b>	<b>52.8</b>
Deferred tax		
Charge for timing differences arising in year	7.2	211
Impact of discounting on deferred tax liability	(0.7)	(9.5)
Impact of decrease/(increase) in discount rates	3.7	(0.8)
Discounted effect of movements in Advance Corporation Tax (ACT)	-	3.2
Effect of reduction in corporation tax rate to 26%	(8.7)	-
Adjustments in respect of previous periods	13.6	(151)
<b>Total deferred tax charge/(credit)</b>	<b>15.1</b>	<b>(11)</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>28.9</b>	<b>51.7</b>

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £3.7 million (2010 credit of £0.8 million) in the year. If all UK gilt rates moved by 0.25% a change in the tax charge of between £10.0 million to £15.0 million would occur.

During the year, as a result of the change in the UK corporation tax rate from 28% to 26% that is effective from 1 April 2011, all relevant deferred tax balances have been re-measured. Further changes to the UK corporation tax rate were announced in the June 2010 and March 2011 Budgets which propose to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes, which are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements.

The current tax charge includes a charge of £1.7 million (2010 £11.2 million) from another Anglian Water Group Limited group undertaking for the utilisation of ACT.

The current tax adjustment for previous periods relates to the agreement of prior year tax computations (£171 million) offset by a prior year capital allowances disclaimer (£4.7 million) and a net charge to another group company for expected ACT utilisation (£1.7 million). In 2010 the current tax adjustment for prior years relates to a prior year capital allowances disclaimer (£8.6 million) and a charge to another group company for expected ACT utilisation (£6.2 million).

The deferred tax adjustment for prior years related to the agreement of prior year tax computations. In 2010 the deferred tax adjustment for prior years related to the effect of the prior year capital allowances disclaimers.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited amounting to £193.1 million (2010 £193.1 million).

In 2010, in addition to the current tax charge above, a £31 million credit for current tax was 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 cost charged to the profit and loss account.

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b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28%, 2010 28%) The differences are explained below

	2011 £m	2010 £m
Profit on ordinary activities before tax	295.4	396.8
Profit on ordinary activities at the standard UK rate of Corporation Tax (28%, 2010 28%)	82.7	111.1
Effects of		
Items not deductible for tax purposes	0.8	0.5
Items not taxable	(0.6)	(0.2)
Group relief utilised	(54.1)	(54.1)
Depreciation not eligible for tax purposes	4.2	4.3
Industrial buildings allowance	(1.3)	(2.5)
Depreciation for the year less than capital allowances	(0.8)	(21.7)
Short-term timing differences	(6.4)	0.6
Adjustment to tax charge in respect of previous periods	(10.7)	14.8
<b>Current tax charge for the year</b>	<b>13.8</b>	<b>52.8</b>

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9 Dividends

	2011 £m	2010 £m
Previous year final dividend	210.0	37.7
Current year interim dividend	45.0	50.0
Dividend paid by the company and retained within the Anglian Water Services Financing group	192.6	192.6
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	0.5	0.5
	<b>448.1</b>	<b>280.8</b>

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A dividend of £193.1 million (2010 £193.1 million) was paid to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million. The prior year dividend committed of £0.5 million was paid in June 2010.

The Directors have proposed a final dividend for the year ended 31 March 2011 of £20.00 per share, which is a total of £200.0 million. The proposed dividend includes a special dividend of £70.0 million to maintain gearing at agreed levels. This distribution has not been accounted for within the 2011 financial statements as it was proposed and approved after the year end.

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## Notes to the group financial statements continued

### 10 Employee information and Directors' emoluments

a) Employee information	2011 £m	2010 £m
Staff costs		
Wages and salaries	119.2	120.8
Social security costs	10.9	10.0
Pension costs - defined contribution (see note 21)	4.5	3.2
Pension costs - defined benefit (see note 21)	11.8	7.8
	<b>146.4</b>	<b>141.8</b>

Staff costs for the year ended 31 March 2011 include £35.9 million (2010 £37.9 million) of costs that have been capitalised within 'own work capitalised'. In the prior year, in addition to the staff costs above there is an additional £7.6 million of staff costs (including £1.1 million of pension past service costs) disclosed as exceptional costs

	2011	2010
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	605	601
Wastewater Services	1,419	1,464
Customer Services	754	786
Asset Management and Other	918	960
	<b>3,696</b>	<b>3,811</b>

b) Directors' emoluments	2011 £'000	2010 £'000
Total aggregate emoluments	2,052	1,986
Company contributions to defined contribution pension schemes	209	292
Benefits received under long-term incentive plans	284	383

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2010 one Director) under a defined benefit pension scheme. Retirement benefits are accruing to four Directors (2010 four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above certain Directors receive emoluments from other AWG group companies.

c) Highest paid Director	2011 £'000	2010 £'000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	896	692
Accrued defined benefit at year end	47	45

The company's contribution in respect of the highest paid Director into defined contribution pension schemes was £46,000 (2010 £25,000)

### 11 Profit for the financial year

The group profit for the financial year includes a profit of £265.6 million (2010 £344.3 million) from the parent undertaking

## 12 Tangible fixed assets

	Group and company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
<b>Cost</b>						
At 1 April 2010	35.8	3,024.3	3,814.5	888.0	210.8	7,973.4
Additions	-	-	-	-	291.7	291.7
Transfers on commissioning	2.9	145.8	100.8	80.7	(330.2)	-
Disposals	-	-	(0.2)	(101.8)	-	(102.0)
<b>At 31 March 2011</b>	<b>38.7</b>	<b>3,170.1</b>	<b>3,915.1</b>	<b>866.9</b>	<b>172.3</b>	<b>8,163.1</b>
<b>Grants and contributions</b>						
At 1 April 2010	-	(241.3)	-	-	(0.2)	(241.5)
Additions	-	(14.7)	-	-	0.1	(14.6)
<b>At 31 March 2011</b>	<b>-</b>	<b>(256.0)</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>(256.1)</b>
<b>Depreciation</b>						
At 1 April 2010	(3.9)	(809.6)	(1,583.3)	(676.8)	-	(3,073.6)
Charge for the year	(0.5)	(72.0)	(125.1)	(58.8)	-	(256.4)
Disposals	-	-	0.2	101.6	-	101.8
<b>At 31 March 2011</b>	<b>(4.4)</b>	<b>(881.6)</b>	<b>(1,708.2)</b>	<b>(634.0)</b>	<b>-</b>	<b>(3,228.2)</b>
<b>Net book amount</b>						
<b>At 31 March 2011</b>	<b>34.3</b>	<b>2,032.5</b>	<b>2,206.9</b>	<b>232.9</b>	<b>172.2</b>	<b>4,678.8</b>
At 31 March 2010	31.8	1,973.4	2,231.1	211.2	210.6	4,658.1

Tangible fixed assets at 31 March 2011 include land of £24.5 million (2010: £21.8 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Assets held under finance leases and capitalised in vehicles, plant and equipment	2011 £m	2010 £m
Cost	236.9	255.6
Aggregate depreciation	(156.2)	(166.9)
<b>Net book amount</b>	<b>80.7</b>	<b>88.7</b>

**Capital commitments**

The group has a substantial long-term investment programme which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2011.

	2011 £m	2010 £m
Contracted for but not provided in the financial statements	42.4	111.7



## Notes to the group financial statements continued

### 13 Fixed asset investments

	Group and company	
	2011 £m	2010 £m
Loan to Anglian Water Services Holdings Limited	1,609.1	1,609.1
Investment in Anglian Water Services Financing Plc	-	-

The loan of £1,609.1 million, made by the company to Anglian Water Services Holdings Limited, is repayable on the later of 30 July 2038 and another date being the next interest payment date following a date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Services Financing Plc. Interest on the loan is calculated at 12% per annum. Anglian Water Services Financing Plc, whose principal activity is that of a financing company, is the sole subsidiary of the group. It is 100% owned, and is registered, incorporated and operating in the UK at 31 March 2011.

### 14 Stocks

	Group and company	
	2011 £m	2010 £m
Raw materials and consumables	9.6	10.1

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

### 15 Debtors

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Amounts falling due within one year</b>				
Trade debtors	167.8	170.6	167.8	170.6
Amounts owed by other Anglian Water Group Limited group undertakings	1.2	1.4	42.2	1.4
Other debtors	10.7	8.8	10.7	8.8
Prepayments and accrued income	150.5	129.3	150.5	129.3
	<b>330.2</b>	<b>310.1</b>	<b>371.2</b>	<b>310.1</b>
<b>Amounts falling due after more than one year</b>				
Amounts owed by other Anglian Water Group Limited group undertakings	1.1	1.5	1.1	1.5
	<b>331.3</b>	<b>311.6</b>	<b>372.3</b>	<b>311.6</b>

Prepayments and accrued income as at 31 March 2011 includes water and wastewater income not yet billed of £144.2 million (2010: £121.4 million).

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

**16 Creditors: amounts falling due within one year**

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Current portion of long-term loans	138.5	-	138.5	-
Obligations under finance leases	2.9	2.5	2.9	2.5
<b>Short-term borrowings (see note 17)</b>	<b>141.4</b>	<b>2.5</b>	<b>141.4</b>	<b>2.5</b>
Trade creditors	111.7	112.7	111.7	112.7
Amounts owed to other Anglian Water Group Limited group undertakings	0.5	0.5	105.6	107.8
Receipts in advance	115.9	125.0	115.9	125.0
Corporation tax	62.4	77.5	62.4	77.5
Other taxation and social security	3.1	2.8	3.1	2.8
Deferred grants and contributions	7.8	7.4	7.8	7.4
Accruals	134.7	125.9	29.5	23.0
<b>Other creditors</b>	<b>436.1</b>	<b>451.8</b>	<b>436.0</b>	<b>456.2</b>

Receipts in advance includes £101.6 million (2010: £108.6 million) relating to amounts received from customers for water and wastewater charges in respect of the following year

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

## Notes to the group financial statements continued

### 17 Loans, other borrowings and financial instruments

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Loans and other borrowings</b>				
£100 million 12.375% fixed rate 2014 (d), (f)	100.0	100.0	100.0	100.0
£250 million 5.837% fixed rate 2022 (d), (f)	247.7	247.5	247.7	247.5
£200 million 6.875% fixed rate 2023 (d), (f)	200.0	200.0	200.0	200.0
£200 million 6.625% fixed rate 2029 (d), (f)	200.0	199.9	200.0	199.9
£246 million 6.293% fixed rate 2030 (d), (f)	244.1	244.0	244.1	244.0
£275 million 7.882% fixed rate 2012/2037 <sup>1</sup> (d), (f), (g)	274.5	274.2	274.5	274.2
£250 million 5.25% fixed rate 2015 (b), (d), (f)	249.8	249.7	249.8	249.7
£150 million 5.5% fixed rate 2017/2040 <sup>2</sup> (b), (d), (f), (g)	149.1	148.9	149.1	148.9
£150 million 4.125% index-linked 2020 (c), (d), (f)	203.6	194.0	203.6	194.0
£75 million 3.666% index-linked 2024 (c), (d), (f)	96.6	92.0	96.6	92.0
£200 million 3.07% index-linked 2032 (c), (d), (f)	256.1	243.8	256.1	243.8
£60 million 3.07% index-linked 2032 (c), (d), (f)	77.4	73.7	77.4	73.7
Finance leases (b), (d)	62.1	64.6	62.1	64.6
£150 million index-linked swap 2024 (e), (f)	6.2	37.0	6.2	37.0
£175 million index-linked swap 2030 (e), (f)	7.1	43.2	7.1	43.2
£258 million index-linked swap 2013 (e), (f)	62.7	55.1	62.7	55.1
€650 million 4.625% fixed rate 2013 (a), (b), (d), (f)	453.0	452.9	453.0	452.9
US\$195 million 7.23% private placements 2011 (a), (d), (f)	138.5	138.4	138.5	138.4
£402 million 2.40% index-linked 2035 (c), (d), (f)	480.0	458.1	480.0	458.1
£50 million 1.7% index-linked 2046 (c), (d), (f)	57.7	55.0	57.7	55.0
£50 million 1.7% index-linked 2046 (c), (d), (f)	57.6	55.8	57.6	55.8
£40 million 1.7146% indexation bond 2056 (c), (d), (f)	46.5	44.3	46.5	44.3
£50 million 1.6777% indexation bond 2056 (c), (d), (f)	58.1	55.4	58.1	55.4
£60 million 1.7903% indexation bond 2049 (c), (d), (f)	69.7	66.4	69.7	66.4
£100 million 1.3784% indexation bond 2057 (c), (d), (f)	115.5	111.8	115.5	111.8
£50 million 1.3825% indexation bond 2056 (c), (d), (f)	57.7	55.8	57.7	55.8
£100 million Class A wrapped floating rate bonds (d), (f)	99.9	99.9	99.9	99.9
£100 million index-linked swap 2057 (e), (f)	14.1	11.7	14.1	11.7
£75 million 1.449% indexation bond 2062 (c), (d), (f)	81.5	80.6	81.5	80.6
£50 million 1.52% indexation bond 2055 (c), (d), (f)	54.3	53.6	54.3	53.6
JPY 15 billion 2.925% fixed rate bond 2018/2037 (a), (b), (d), (f)	65.9	65.9	65.9	65.9
£65.9 million index-linked swap 2059 (e), (f)	5.9	4.9	5.9	4.9
£110 million Class A unwrapped floating rate bonds 2043 (d), (f)	109.9	109.9	109.9	109.9
£50 million index-linked swap 2043 (e), (f)	4.3	1.8	4.3	1.8
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (f)	25.0	25.0	25.0	25.0
€500 million 6.25% fixed rate bond 2016 (a), (d), (f)	392.7	392.4	392.7	392.4
£25 million 6.875% 2034 private placement (d), (f)	24.6	24.6	24.6	24.6
£100 million Class B 6.75% fixed rate bond 2024 <sup>3</sup> (d), (f)	98.9	98.9	98.9	98.9
EIB £50 million 1.626% index-linked term facility 2019 (c), (d), (f)	53.6	51.1	53.6	51.1
EIB £50 million 1.3% index-linked term facility 2020 (c), (f)	52.9	50.4	52.9	50.4
£130 million 2.262% index-linked bond 2045 (c), (d), (f)	133.6	-	133.6	-
<b>Total loans and other borrowings</b>	<b>5,188.4</b>	<b>5,032.2</b>	<b>5,188.4</b>	<b>5,032.2</b>
Less amounts included in creditors falling due within one year	(141.4)	(2.5)	(141.4)	(2.5)
<b>Loans and other borrowings due after more than one year</b>	<b>5,047.0</b>	<b>5,029.7</b>	<b>5,047.0</b>	<b>5,029.7</b>

- (a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen loans. The adjustment to the US dollar loans is £171 million (2010: £101 million), the adjustment to the Euro loans is £(168.6) million (2010: £(177.0) million) and the adjustment to the Japanese Yen loans is £(59.3) million (2010: £(49.9) million).
- (b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy (see page 89).
- (c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI). The total increase in the capital value of index-linked loans during the year of £82.1 million (2010: £3.7 million) has been taken to the profit and loss account as part of interest payable.
- (d) These loans are shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments.
- (e) The group has entered into six index-linked interest rate swap agreements. The values of the notional capital on these swaps are linked to movements in the RPI. The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £27.2 million (2010: £13.5 million) has been taken to the profit and loss account as part of interest payable.
- (f) These loans are 'back-to-back' inter-group loans from Anglian Water Services Financing Plc to the company. Under the company/Anglian Water Services Financing Plc loan agreement, Anglian Water Services Financing Plc onlends an equal amount to the sterling equivalent of each bond to the company on identical terms. Therefore each individual 'back-to-back' inter-group loan has been separately disclosed. Anglian Water Services Financing Plc charges the company an annual management fee in respect of entering into the company/Anglian Water Services Financing Plc loan agreement.
- (g) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.
- (h) A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, the company, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of the company to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, the company and Anglian Water Services Overseas Holdings Limited. At 31 March 2011 this charge applies to £5,188.4 million (2010: £5,032.2 million) of the debt listed above.
- <sup>1</sup> The coupon for this instrument will increase to Floating rate LIBOR plus 6.0% effective July 2012.
- <sup>2</sup> The coupon for this instrument will increase to Floating rate 3 month LIBOR plus 3.5% effective October 2017.
- <sup>3</sup> The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10.9% effective June 2014.

## Notes to the group financial statements continued

### 17 Loans, other borrowings and financial instruments continued

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

	2011		2010	
	Creditors < 1 year £m	Creditors > 1 year £m	Creditors < 1 year £m	Creditors > 1 year £m
Amounts owed to group undertakings	138.5	5,005.7	-	4,985.4
Debt issue costs	-	(17.9)	-	(17.8)
Obligations under finance leases	2.9	59.3	2.5	62.2
Finance lease issue costs	-	(0.1)	-	(0.1)
	<b>141.4</b>	<b>5,047.0</b>	<b>2.5</b>	<b>5,029.7</b>

#### Maturity analysis of financial liabilities

	Group and company	
	2011 £m	2010 £m
Less than one year	143.1	4.3
Between one and two years	4.9	143.0
Between two and five years	885.7	625.6
After five years	4,180.8	4,282.3
	<b>5,214.5</b>	<b>5,055.2</b>

Included above are amounts due under finance leases of £2.9 million (2010 £2.5 million) payable within one year, £3.3 million (2010 £2.9 million) payable between one and two years, £16.8 million (2010 £15.5 million) payable between two and five years and £391 million (2010 £43.7 million) payable after five years. The above maturity profile is determined by reference to the fixed dates on which the liability falls due.

In addition to loans and finance leases the above analysis includes other financial liabilities (including overdrafts, long-term creditors, accruals and provisions) totalling £26.1 million (2010 £23.0 million), of which £1.7 million falls due in less than one year (2010 £1.8 million). This analysis is net of issue costs totalling £18.0 million (2010 £17.9 million).

#### Borrowing facilities

	Group	
	2011 £m	2010 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	355.0	580.0
Expiring between one and two years	355.0	-
	<b>710.0</b>	<b>580.0</b>

#### Control of treasury

The Treasury team, which reports directly to the Managing Director, Finance and Non-Regulated Business, manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to

- Ensure that lenders' covenants are met
- Secure funds through a balanced approach to financial markets and maturities
- Manage interest rates to minimise financial exposures and minimise interest costs
- Invest temporary surplus cash to best advantage at minimal financial risk
- Maintain an excellent reputation with providers of finance and rating agencies
- Promote management techniques and systems
- Enhance control of financial resources

**Management of financial risk**

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The board regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in April 2011 and treasury matters are reported to the board each month.

A Finance, Treasury and Energy Policy Group (FTEPG), comprising the Managing Director, Finance and Non-Regulated Business, the Group Treasurer, together with other Directors and senior managers, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, floating rate notes and AAA rated money funds.

The group, via its financing subsidiary Anglian Water Services Financing Plc, also enters into derivative transactions (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the treasury policy.

To ensure continued effectiveness and relevance, the board carries out a formal annual review of the treasury organisation and reporting.

**Borrowing covenants**

With the exception of asset-based funding, all the group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing group (see Directors' Report on page 74). The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

*a) Market risk*

*i) Foreign currency*

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

*ii) Interest rate*

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

*iii) Commodity price risk*

The group is exposed to commodity price risk in its energy procurement and utilises forward energy instruments to minimise its exposure to price fluctuations.

*b) Credit risk*

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

*c) Liquidity risk*

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

**Financial instruments disclosures**

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

## Notes to the group financial statements continued

BUSINESS REVIEW

### 17 Loans, other borrowings and financial instruments continued

Fair value of financial assets and financial liabilities	2011		2010	
	Book value £m	Fair value <sup>1</sup> £m	Book value £m	Fair value <sup>1</sup> £m
The fair value of the group's financial instruments at 31 March was				
Cash at bank and in hand	554.8	554.8	598.5	598.5
Current asset investments	47.5	47.5	78.5	78.5
Short-term borrowings	(124.3)	(128.2)	(2.5)	(2.5)
Long-term borrowings	(5,174.5)	(5,548.8)	(5,092.7)	(5,383.0)
Interest rate swaps	210.8	263.0	216.7	300.5
Index-linked swaps	(100.4)	(449.1)	(153.7)	(425.1)
Energy hedging instruments	-	24.8	-	(21.5)
	<b>(4,586.1)</b>	<b>(5,236.0)</b>	<b>(4,355.2)</b>	<b>(4,854.6)</b>
Fixed asset investments	1,609.1	1,930.9	1,609.1	1,930.9
Provisions excluding deferred tax and pension obligations	(26.1)	(23.1)	(23.0)	(22.2)
	<b>(3,003.1)</b>	<b>(3,328.2)</b>	<b>(2,769.1)</b>	<b>(2,945.9)</b>

GOVERNANCE

<sup>1</sup> The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £105.4 million (2010: £103.1 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors' amounts falling due within one year.

STATUTORY ACCOUNTS

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

The fair value of the group's energy hedging instruments is calculated to reflect the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2011. The value at that date was determined by market rates, which fluctuate over time.

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

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2011. The value at that date was determined by market rates, which fluctuate over time. The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved.

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

REGULATORY ACCOUNTS

	2011			2010		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	101.3	(309.6)	(208.3)	115.7	(269.3)	(153.6)
Reversal of items unrecognised at 1 April	(2.1)	5.9	3.8	(5.3)	17.5	12.2
Recognised during the year	(28.8)	44.0	15.2	(31.2)	15.4	(15.8)
Arising during the year	35.7	(115.1)	(79.4)	22.1	(73.2)	(51.1)
<b>Unrecognised at 31 March</b>	<b>106.1</b>	<b>(374.8)</b>	<b>(268.7)</b>	<b>101.3</b>	<b>(309.6)</b>	<b>(208.3)</b>

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 £268.7 million (2010: £208.3 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 2011.

Of the unrecognised gains and losses at 31 March 2011, a net gain of £34.9 million (2010: net gain of £15.1 million) is expected to be included in the profit and loss account for the year ended 31 March 2012 and the balance in future years.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. Foreign currency borrowings are swapped into sterling and translated at the contracted rates. Consequently, the carrying value of the relevant borrowing effectively includes the gain or loss on the hedging instrument.

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2011

	Total £m	Index- linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate weighted average interest rate	Fixed rate weighted average years to maturity
Total borrowings (all sterling) <sup>1</sup>	(5,188.4)	(2,850.8)	(280.1)	(2,057.5)	-	7.0%	13.6
Cash, deposits and current asset investments (all sterling)	602.3	-	602.3	-	-		
<b>Net debt</b>	<b>(4,586.1)</b>	<b>(2,850.8)</b>	<b>322.2</b>	<b>(2,057.5)</b>	<b>-</b>		
Fixed asset investments	1,609.1	-	-	1,609.1	-	12.0%	
Provisions	(26.1)	-	-	-	(26.1)		
<b>Net financial liabilities</b>	<b>(3,003.1)</b>	<b>(2,850.8)</b>	<b>322.2</b>	<b>(448.4)</b>	<b>(26.1)</b>		

<sup>1</sup> The underlying currencies of borrowings as set out on page 98 have been swapped to sterling.



## Notes to the group financial statements continued

### 17 Loans, other borrowings and financial instruments continued

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2010

	Total £m	Index- linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate weighted average interest rate	Fixed rate weighted average years to maturity
Total borrowings (all sterling) <sup>1</sup>	(5,032.2)	(2,693.2)	(280.1)	(2,058.9)	-	7.0%	14.6
Cash, deposits and current asset investments (all sterling)	677.0	-	677.0	-	-		
Net debt	(4,355.2)	(2,693.2)	396.9	(2,058.9)	-		
Fixed asset investments	1,609.1	-	-	1,609.1	-	12.0%	54.0
Provisions	(23.0)	-	-	-	(23.0)		
Net financial liabilities	(2,769.1)	(2,693.2)	396.9	(449.8)	(23.0)		

<sup>1</sup> The underlying currencies of borrowings as set out on page 98 have been swapped to sterling

Floating rate cash and investments earn interest based on the London Inter Bank Bid rate (LIBID) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

### 18 Other creditors falling due after more than one year

	Group and company	
	2011 £m	2010 £m
Deferred grants and contributions	131.1	127.5
Amounts owed to other Anglian Water Group Limited group undertakings	10.9	6.2
	<b>142.0</b>	<b>133.7</b>

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

### 19 Provisions for liabilities

	Group and company				
	Onerous lease obligation £m	Other onerous contracts £m	Coupon enhance- ment provision £m	Deferred tax provision £m	Total £m
At 1 April 2010	1.9	8.1	13.0	28.0	51.0
Charge for the year	-	4.6	-	5.1	9.7
Unwinding of discount (note 7)	-	-	1.0	-	1.0
Utilised in the year	(0.2)	-	(2.3)	-	(2.5)
At 31 March 2011	1.7	12.7	11.7	33.1	59.2

The onerous lease provision relates to office space vacated by the group as part of the cost cutting programme to achieve efficiency targets set by Ofwat. The provision is discounted and is expected to be utilised over the next 12 years.

The other onerous contracts provision is made for contractual obligations on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument. The provision is expected to be utilised by 2046.

The coupon enhancement provision of £11.7 million relates to coupon enhancement and other related costs incurred on the transfer of debt from AWG Group Limited group to Anglian Water Services Financing Plc at the end of the refinancing exercise in 2002. The provision relates to several instruments with varying maturity dates. It is expected to be utilised in varying amounts over the next 19 years and has been discounted.

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

**20 Deferred tax**

The total tax charge or credit in the current year includes provisions for discounted deferred taxation. Consequently, changes in the medium-term and long-term interest rates used to discount deferred taxation assets and liabilities can affect the amount of deferred taxation charged or credited in the profit and loss account.

The deferred tax liability is stated net of ACT recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £54.4 million.

	Group and company	
	2011 £m	2010 £m
Accelerated capital allowances	629.8	669.8
Short-term timing differences	(6.9)	(9.0)
Surplus ACT asset	(140.5)	(137.5)
Undiscounted provision for deferred tax	482.4	523.3
Discount	(449.3)	(495.3)
Discounted provision for deferred tax	33.1	28.0
Deferred tax asset on pension liability (see note 21(b))	(24.1)	(54.9)
<b>Total deferred tax liability/(asset) included in the balance sheet</b>	<b>9.0</b>	<b>(26.9)</b>
As at 1 April 2010		<b>(26.9)</b>
Deferred tax charged to the profit and loss account (see note 8(a))	15.1	
Deferred tax charged to the statement of total recognised gains and losses	23.8	
ACT written back in the year	(3.0)	
<b>At 31 March 2011</b>	<b>9.0</b>	

## Notes to the group financial statements continued

### 21 Pension commitments

Pension arrangements for the majority of the group's employees are of the funded defined benefit type through the AWG Pension Scheme (AWGPS). The group's actuary is Aon Hewitt. The defined benefit arrangements are closed to new employees, who are eligible instead for entry to Anglian Water Group's defined contribution schemes. For the AWGPS, as a closed scheme, under the projected unit method, the current service cost will increase as the members approach retirement. The administration and investment of the pension funds are maintained separately from the finances of the group. The AWGPS disclosure below relate to the company's share of the assets and liabilities of the AWGPS.

The group also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of FRS 17 as at 31 March 2011. The provision for unfunded pension obligations relates to the cost of enhancements to the pension entitlements of former employees, over and above their entitlements in the group's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between eight and 17 years ago. These pension enhancements are payable until the death of the employees (or their dependants), and payments are expected to be made over approximately 25 years.

In addition, the group operates a defined benefit scheme for the employees of the former Hartlepool Water Limited acquired on 1 April 2000 and a defined contribution scheme which commenced on 1 April 2002.

Contributions to the defined contribution pension scheme in the year were £4.5 million (2010: £3.2 million).

#### (a) Financial assumptions

The valuation used has been based on the formal valuation for AWGPS carried out as at 1 April 2008 (summarised below), updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2011. The group contributed 21.2% of pensionable pay in the year and for the year ending 31 March 2012 the expected contribution rate is 21.2%. In addition, the group paid £20.8 million in deficit reduction payments in the year and anticipates it will pay £21.8 million in 2012.

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

	2011 % pa	2010 % pa
Discount rate	5.5	5.6
Inflation rate		
- RPI	3.4	3.5
- CPI	2.7	n/a
Increase to deferred benefits during deferment		
- RPI	3.4	3.5
- CPI	2.7	n/a
Increases to inflation related pensions in payment		
- RPI	3.4	3.5
- CPI	2.7	n/a
General salary increases <sup>1</sup>	4.4	4.5
Longevity at age 65 for current pensioners (years)		
Men	23.5	23.3
Women	25.9	25.8
Longevity at age 65 for future pensioners (years)		
Men	25.5	25.4
Women	27.7	27.7

<sup>1</sup> The general salary increase assumption is based on a long-term view.

(b) Amounts recognised in the balance sheet

The long-term expected rate of return and the assets in the scheme relating to the group at 31 March 2011 are

	AWGPS		Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7.3	295.2	n/a	2.8	298.0
Corporate bonds	5.5	214.4	n/a	-	214.4
Gilts	4.3	304.1	n/a	11.7	315.8
Property	6.3	41.1	n/a	-	41.1
Alternatives	6.3	14.2	n/a	-	14.2
Other	0.5	5.4	n/a	-	5.4
<b>Total assets</b>		<b>874.4</b>	<b>n/a</b>	<b>14.5</b>	<b>888.9</b>
Fair value of scheme liabilities		(921.6)	(44.3)	(15.7)	(981.6)
<b>Deficit in the scheme</b>		<b>(47.2)</b>	<b>(44.3)</b>	<b>(1.2)</b>	<b>(92.7)</b>
Related deferred tax asset		12.3	11.5	0.3	24.1
<b>Net pension liability</b>		<b>(34.9)</b>	<b>(32.8)</b>	<b>(0.9)</b>	<b>(68.6)</b>

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

	AWGPS		Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7.5	286.5	n/a	2.6	289.1
Corporate bonds	5.6	112.4	n/a	-	112.4
Gilts	4.5	294.6	n/a	10.9	305.5
Property	6.5	38.6	n/a	-	38.6
Alternatives	6.5	31.3	n/a	-	31.3
Other	0.5	35.5	n/a	-	35.5
<b>Total assets</b>		<b>798.9</b>	<b>n/a</b>	<b>13.5</b>	<b>812.4</b>
Fair value of scheme liabilities		(943.1)	(48.9)	(16.5)	(1,008.5)
<b>Deficit in the scheme</b>		<b>(144.2)</b>	<b>(48.9)</b>	<b>(3.0)</b>	<b>(196.1)</b>
Related deferred tax asset		40.4	13.7	0.8	54.9
<b>Net pension liability</b>		<b>(103.8)</b>	<b>(35.2)</b>	<b>(2.2)</b>	<b>(141.2)</b>

## Notes to the group financial statements continued

### 21 Pension commitments continued

#### (c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>At 1 April 2010</b>	<b>(943.1)</b>	<b>(48.9)</b>	<b>(16.5)</b>	<b>(1,008.5)</b>
Current service cost	(10.8)	-	(0.2)	(11.0)
Past service cost	(0.8)	-	-	(0.8)
Members' contributions	(3.6)	-	(0.1)	(3.7)
Net interest	(52.5)	(2.7)	(0.9)	(56.1)
Benefits paid	311	2.6	0.4	341
Actuarial gain	581	4.7	1.6	64.4
<b>At 31 March 2011</b>	<b>(921.6)</b>	<b>(44.3)</b>	<b>(15.7)</b>	<b>(981.6)</b>

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2009	(717.7)	(42.7)	(13.0)	(773.4)
Current service cost	(7.6)	-	(0.2)	(7.8)
Past service cost	(1.1)	-	-	(1.1)
Members' contributions	(3.8)	-	-	(3.8)
Net interest	(44.6)	(2.6)	(0.8)	(48.0)
Benefits paid	271	2.6	0.4	301
Actuarial loss	(195.4)	(6.2)	(2.9)	(204.5)
At 31 March 2010	(943.1)	(48.9)	(16.5)	(1,008.5)

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(d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>At 1 April 2010</b>	<b>798.9</b>	<b>-</b>	<b>13.5</b>	<b>812.4</b>
Expected return on scheme assets	46.1	-	0.7	46.8
Members' contributions	3.6	-	0.1	3.7
Employer's contributions	35.4	2.6	0.3	38.3
Benefits paid	(31.1)	(2.6)	(0.4)	(34.1)
Actuarial gain	21.5	-	0.3	21.8
<b>At 31 March 2011</b>	<b>874.4</b>	<b>-</b>	<b>14.5</b>	<b>888.9</b>

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>At 1 April 2009</b>	<b>662.1</b>	<b>-</b>	<b>12.5</b>	<b>674.6</b>
Expected return on scheme assets	33.0	-	0.5	33.5
Members' contributions	3.8	-	0.1	3.9
Employer's contributions	31.4	2.6	0.5	34.5
Benefits paid	(27.0)	(2.6)	(0.5)	(30.1)
Actuarial gain	95.6	-	0.4	96.0
<b>At 31 March 2010</b>	<b>798.9</b>	<b>-</b>	<b>13.5</b>	<b>812.4</b>

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

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

The actual return of the scheme assets in the year was £68.6 million (2010: £129.5 million).

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2011</b>				
Total actuarial gains recognised	79.6	4.7	1.9	86.2
<b>2010</b>				
Total actuarial losses recognised	(99.8)	(6.2)	(2.5)	(108.5)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £145.8 million (2010: cumulative losses of £232.0 million).

## Notes to the group financial statements continued

### 21 Pension commitments continued

(f) Analysis of amounts charged against profits

The group's pension expense for its defined benefit schemes, in accordance with FRS 17, is set out below

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2011 profit and loss account</b>				
Current service cost	(10.8)	-	(0.2)	(11.0)
Past service cost	(0.8)	-	-	(0.8)
<b>Charge to operating profit (see note 10)</b>	<b>(11.6)</b>	<b>-</b>	<b>(0.2)</b>	<b>(11.8)</b>
Expected return on pension scheme assets	46.1	-	0.7	46.8
Interest on pension scheme liabilities	(52.5)	(2.7)	(0.9)	(56.1)
<b>Amount charged to other finance charges (see note 7)</b>	<b>(6.4)</b>	<b>(2.7)</b>	<b>(0.2)</b>	<b>(9.3)</b>
<b>Charge to profit on ordinary activities before taxation</b>	<b>(18.0)</b>	<b>(2.7)</b>	<b>(0.4)</b>	<b>(21.1)</b>

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2010 profit and loss account</b>				
Current service cost	(7.6)	-	(0.2)	(7.8)
Past service cost (included within exceptional costs)	(1.1)	-	-	(1.1)
<b>Charge to operating profit (see note 10)</b>	<b>(8.7)</b>	<b>-</b>	<b>(0.2)</b>	<b>(8.9)</b>
Expected return on pension scheme assets	33.0	-	0.5	33.5
Interest on pension scheme liabilities	(44.6)	(2.6)	(0.8)	(48.0)
<b>Amount charged to other finance charges (see note 7)</b>	<b>(11.6)</b>	<b>(2.6)</b>	<b>(0.3)</b>	<b>(14.5)</b>
<b>Charge to profit on ordinary activities before taxation</b>	<b>(20.3)</b>	<b>(2.6)</b>	<b>(0.5)</b>	<b>(23.4)</b>

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(g) Historical information

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	(981 6)	(1,008 5)	(773 4)	(838 0)	(771 3)
Plan assets	888 9	812 4	674 6	751 2	748 6
Deficit	(92 7)	(196 1)	(98 8)	(86 8)	(22 7)
Experience adjustments on plan assets	21 8	96 0	(121 7)	(44 4)	(17)
Experience adjustments on plan liabilities	12 2	(19 0)	12 9	(37 2)	(2 9)

22 Commitment under operating leases

At 31 March 2011 the group and company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows

	Group and company			
	2011		2010	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0 2	0 6	-	0 4
Within two and five years	0 7	1 2	0 6	1 7
After five years	1 9	-	2 0	-
	2 8	1 8	2 6	2 1

23 Called up share capital

	Group and company	
	2011 £m	2010 £m
<b>Allotted, issued and fully paid</b>		
10 million (2010 860 million) ordinary shares of £1 each	10.0	860 0

On 5 October 2010 the company's issued share capital of £860 0 million was reduced to £10 0 million in shares of £1, each fully paid (2010 £860 0 million), all of which is held by Anglian Water Overseas Holdings Limited. This was part of a capital reduction exercise which led to distributable reserves increasing by £850 0 million. This is primarily in preparation for the expected conversion to International Financial Reporting Standards in the year ending 31 March 2015, and there is no intended change to dividend policy as a result of this capital reduction.

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## Notes to the group financial statements continued

### 24 Movement in shareholder's funds

#### Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2010	860 0	596 0	1,456 0
Total recognised gains and losses for the year	-	328 9	328 9
Capital reduction (see note 23)	(850 0)	850 0	-
Dividend paid and committed	-	(448 1)	(448 1)
<b>At 31 March 2011</b>	<b>10 0</b>	<b>1,326 8</b>	<b>1,336 8</b>

#### Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2010	860 0	552 6	1,412 6
Profit for the financial year	-	265 6	265 6
Actuarial gain recognised in the pension scheme	-	86 2	86 2
Impact of change in tax rate on deferred tax on pension schemes	-	0.3	0 3
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	(24 1)	(24.1)
Capital reduction (see note 23)	(850 0)	850 0	-
Dividend paid and committed	-	(448 1)	(448 1)
<b>At 31 March 2011</b>	<b>10.0</b>	<b>1,282.5</b>	<b>1,292 5</b>

### 25 Contingencies

At 31 March 2011 £140.5 million (2010 £137.5 million) of ACT has been surrendered to the company by AWG Group Limited but remains unutilised. As part of the financial restructuring in 2002, the company is required to pay AWG Group Limited on utilisation of ACT. An additional amount of £17 million (2010 £11.2 million) has been recognised for payment to AWG Group Limited for the utilisation of ACT. No further provision has been recognised in the group accounts as it is uncertain whether further ACT will be utilised (ie it is not probable that a transfer of economic benefits will be required to settle the obligation).

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, which at 31 March 2011 amounted to £5,364.9 million (2010 £5,157.9 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2011.

There are no other material contingent liabilities at 31 March 2011 for which provision has not been made in these financial statements.

**26 Related party transactions**

As part of the company's usual relocation policy to assist key employees to relocate their main family home into the region, on 28 April 2010 the company purchased the family home of the Director Chris Newsome, for £407,500. The price paid was the market value of the property at the time, as assessed by independent surveyors. At 31 March 2011 the house was being marketed for sale by the company, and was included in the accounts within current assets at its purchase price.

**27 Events after balance sheet date**

The final dividend for 2010/11 of £200.0 million was approved by the board on 27 May 2011.

**28 Ultimate parent company**

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

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

Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the company, copies of which can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

Copies of the accounts of Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Financing Plc can also be obtained from the Company Secretary at the above address.

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

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## Independent auditors' report

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

We have audited the group and parent company financial statements (the 'financial statements') of Anglian Water Services Limited for the year ended 31 March 2011 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 77 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2011 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

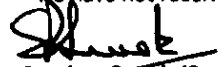
#### Opinion on other matter prescribed by the Companies Act 2006

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

#### Matters on which we are required to report by exception

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

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



**Stephen Smook (Senior Statutory Auditor)**  
**For and on behalf of PricewaterhouseCoopers LLP**  
 Chartered Accountants and Statutory Auditors

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Birmingham  
 27 May 2011

## **Regulatory accounts and required regulatory information**

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The regulatory accounts and required regulatory information on pages 117 to 141 are provided to comply with Condition F of the Instrument of Appointment of Anglian Water Services Limited as a water and sewerage undertaker under the Water Industry Act 1991

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat

There are differences between UK Generally Accepted Accounting Practice and the Regulatory Accounting Guidelines. Where different treatments are specified under each, the Regulatory Accounting Guidelines take precedence.

A glossary of regulatory terms is shown on page 144

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## Statement of Directors' responsibilities for regulatory information

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Further to the requirements of company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat

This additionally requires the Directors to

- Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
- Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company
- Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker
- Report to Ofwat changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length
- Keep proper accounting records which comply with Condition F

These responsibilities are additional to those already set out in the statutory financial statements

In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act the following applies

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

## Notes on regulatory accounts

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### 1 General

The company's activities are regulated by the conditions of a Licence granted to the company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function, these business activities are referred to as non-appointed business (see note 3 on page 124)

An analysis of the regulatory historical cost profit and loss account and regulatory historical cost balance sheet between appointed and non-appointed business is set out on pages 118 and 120. A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 128 and 129. Other current cost disclosures appear on pages 130 to 140. Additional information required by the Licence is shown on pages 122 to 127.

Under the Regulatory Accounting Guidelines the classification of certain balances within the regulatory accounts differs from that disclosed in the statutory financial statements. A reconciliation of the differences is provided on page 121.

### 2 Protection of the regulated business

- (a) In the opinion of the Directors, the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)
- (b) In the opinion of the Directors, the company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to carry out the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)
- (c) In the opinion of the Directors, all contracts entered into with any associate company include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

### 3 Arm's-length trading

In the opinion of the Directors, the company was in compliance with paragraph 31 of Condition F of the Licence throughout the year.

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## Regulatory historical cost profit and loss account

for the year ended 31 March

	2011			2010		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Turnover</b>	<b>1,079.3</b>	<b>13.0</b>	<b>1,092.3</b>	1,086.4	13.4	1,099.8
Operating costs (before exceptional costs)	(392.2)	(6.5)	(398.7)	(379.7)	(7.0)	(386.7)
Historical cost depreciation	(248.1)	(0.4)	(248.5)	(241.3)	(0.4)	(241.7)
Exceptional operating costs	-	-	-	(8.8)	-	(8.8)
Operating income	2.2	-	2.2	0.6	-	0.6
<b>Operating profit</b>	<b>441.2</b>	<b>6.1</b>	<b>447.3</b>	457.2	6.0	463.2
Net interest payable	(152.8)	-	(152.8)	(67.3)	-	(67.3)
<b>Profit on ordinary activities before taxation</b>	<b>288.4</b>	<b>6.1</b>	<b>294.5</b>	389.9	6.0	395.9
Taxation						
- current tax	(12.1)	(1.7)	(13.8)	(51.1)	(1.7)	(52.8)
- deferred tax	(15.1)	-	(15.1)	11	-	11
<b>Profit on ordinary activities after taxation</b>	<b>261.2</b>	<b>4.4</b>	<b>265.6</b>	339.9	4.3	344.2
Dividends	(443.7)	(4.4)	(448.1)	(276.5)	(4.3)	(280.8)
<b>Transfer (from)/to reserves</b>	<b>(182.5)</b>	<b>-</b>	<b>(182.5)</b>	63.4	-	63.4

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

for the year ended 31 March

	2011 £m	2010 £m
<b>Profit on ordinary activities after taxation</b>	<b>261.2</b>	<b>339.9</b>
Actuarial gains/(losses) recognised in the pension scheme	86.2	(108.4)
Current tax relating to the actuarial loss in the pension scheme	-	31
Impact of change in tax rate on deferred tax on pension schemes	0.3	-
Movement on deferred tax relating to the actuarial (gain)/loss in the pension scheme	(24.1)	27.2
<b>Total recognised gains and losses for the year</b>	<b>323.6</b>	<b>261.8</b>

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## Regulatory historical cost balance sheet

as at 31 March

	2011			2010		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	4,630.2	1.3	4,631.5	4,611.9	0.5	4,612.4
Investments	1,609.1	-	1,609.1	1,609.1	-	1,609.1
<b>Total fixed assets</b>	<b>6,239.3</b>	<b>1.3</b>	<b>6,240.6</b>	<b>6,221.0</b>	<b>0.5</b>	<b>6,221.5</b>
<b>Current assets</b>						
Stocks	9.6	-	9.6	10.1	-	10.1
Debtors	372.3	-	372.3	311.5	-	311.5
Cash at bank and in hand	109.0	1.7	110.7	162.4	1.7	164.1
Investments and short-term deposits	406.2	-	406.2	473.9	-	473.9
Infrastructure renewals prepayment	47.3	-	47.3	45.7	-	45.7
<b>Total current assets</b>	<b>944.4</b>	<b>1.7</b>	<b>946.1</b>	<b>1,003.6</b>	<b>1.7</b>	<b>1,005.3</b>
<b>Creditors, amounts falling due within one year</b>						
Short-term borrowings	(141.4)	-	(141.4)	(2.5)	-	(2.5)
Other creditors	(364.4)	(1.3)	(365.7)	(370.8)	(2.2)	(373.0)
Corporation tax payable	(60.7)	(1.7)	(62.4)	(75.8)	-	(75.8)
<b>Total creditors</b>	<b>(566.5)</b>	<b>(3.0)</b>	<b>(569.5)</b>	<b>(449.1)</b>	<b>(2.2)</b>	<b>(451.3)</b>
<b>Net current assets</b>	<b>377.9</b>	<b>(1.3)</b>	<b>376.6</b>	<b>554.5</b>	<b>(0.5)</b>	<b>554.0</b>
<b>Total assets less current liabilities</b>	<b>6,617.2</b>	<b>-</b>	<b>6,617.2</b>	<b>6,775.5</b>	<b>-</b>	<b>6,775.5</b>
<b>Creditors, amounts falling due after more than one year</b>						
Loans and other borrowings	(5,047.0)	-	(5,047.0)	(5,029.7)	-	(5,029.7)
Other creditors	(10.9)	-	(10.9)	(6.2)	-	(6.2)
<b>Total creditors</b>	<b>(5,057.9)</b>	<b>-</b>	<b>(5,057.9)</b>	<b>(5,035.9)</b>	<b>-</b>	<b>(5,035.9)</b>
<b>Provisions for liabilities and charges</b>						
Deferred tax provision	(33.1)	-	(33.1)	(28.0)	-	(28.0)
Other provisions	(26.2)	-	(26.2)	(23.0)	-	(23.0)
Deferred income - grants and contributions	(138.9)	-	(138.9)	(134.8)	-	(134.8)
Defined benefit pension scheme liabilities	(68.6)	-	(68.6)	(141.2)	-	(141.2)
	(266.8)	-	(266.8)	(327.0)	-	(327.0)
<b>Net assets employed</b>	<b>1,292.5</b>	<b>-</b>	<b>1,292.5</b>	<b>1,412.6</b>	<b>-</b>	<b>1,412.6</b>
<b>Capital and reserves</b>						
Called up share capital	10.0	-	10.0	860.0	-	860.0
Profit and loss account	1,282.5	-	1,282.5	552.6	-	552.6
<b>Capital and reserves</b>	<b>1,292.5</b>	<b>-</b>	<b>1,292.5</b>	<b>1,412.6</b>	<b>-</b>	<b>1,412.6</b>

## Historical cost reconciliation between statutory accounts and regulatory accounts

as at 31 March

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

	2011 £m Statutory UK GAAP	2011 £m Regulatory	Explanation
<b>Profit and loss account</b>			
Operating profit	447.3	447.3	No difference
Profit before tax	294.5	294.5	No difference
<b>Balance sheet</b>			
Fixed assets			
Tangible fixed assets (net book value)	4,678.8	4,631.5	The difference of £47.3 million is attributable to the infrastructure renewals prepayment which is excluded from the fixed assets net book value and shown separately on the balance sheet within current assets in the regulatory accounts in accordance with Regulatory Accounting Guidance 3.06
Current assets			
Infrastructure renewals prepayment	-	47.3	
Current assets			
Investments and short-term deposits	37.5	406.2	Deposits with a maturity of greater than one day but less than three months of £368.7 million is shown as cash at bank and in hand within the statutory accounts but is shown as investments in the regulatory accounts
Cash at bank and in hand	479.4	110.7	
Deferred income - grants and contributions			
Short-term and long-term other creditors	(138.9)	-	Deferred grants and contributions within the statutory accounts are analysed between creditors amounts falling due within one year (£7.8 million) and amounts falling due after more than one year (£131.1 million) This is in contrast to the regulatory accounts, which shows total deferred grants and contributions of £138.9 million within provisions for liabilities and charges
Provisions for liabilities and charges	-	(138.9)	

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## Additional information required by the licence

### 1 Historical cost accounting policies

The accounting policies are set out in the statutory financial statements, except that, as noted on page 117, under the Regulatory Accounting Guidelines certain balances are treated differently in the regulatory accounts

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

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

- i) The revenue recognition policies in the Statutory and Regulatory Accounts are aligned resulting in a consistent reported turnover in the two sets of accounts
- ii) Occupied properties are chargeable for water and sewerage and revenue is recognised based on services supplied. Unoccupied properties are non-chargeable and therefore no billing is raised and no turnover recognised
  - (a) Household and Non-Household charges apply to vacant premises in certain circumstances as set out in our legal Charges Scheme as approved by Ofwat on an annual basis, and revenue is recognised on these properties consistent with occupied properties. Vacant premises which attract charges include
    - Premises which are left unoccupied for periods of time but are left with bedding, a desk or other furniture so that they may be used as a dwelling or as office or commercial premises
    - Furnished premises used for multiple occupation with shared facilities
    - Furnished premises used as holiday, student, hostel or other accommodation
    - Furnished premises used for short-term occupation or letting where the occupation or term of the tenancy is for less than six months
    - Premises in respect of which renovation or building work is being undertaken
    - Premises which are not normally regarded as being occupied such as cattle troughs and car parks
    - All metered premises (furnished and unfurnished) where water is being consumed
  - (b) Further, the following provisions are applied in respect of disconnections
    - Premises listed in Schedule 4A of the Water Industry Act 1991 (eg any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges
    - If the water supply to any premises is disconnected for any reason but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected, in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied
    - If it is found subsequently that the premises were occupied for any period when we were advised that the premises would be unoccupied the appropriate Sewerage Unmeasured Tariff will then apply to that period, appropriate retrospective bills are raised and revenue recognised at that point
    - In the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence and revenue be recognised. Occupier is defined to include any person who owns premises as set out in part ii) (a) above and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (eg a Bulk Meter Agreement)
- iii) Charges on income relating to debt recovery costs, which are chargeable to customers, are credited to operating costs and charged to the relevant customer account. Turnover is unaffected by these debt recovery costs. Historically we have only sought to recover court and solicitors' fees where we have made a court summons. From 2009/10 the legal Charges Scheme was amended to allow debt recovery agency fees to be recharged to customers
- iv) As soon as new properties are occupied, liability for water and sewerage charges commences, and revenue starts to accrue

## 2 Link between Directors' pay and standards of performance

Directors' pay comprises a package of base salary together with an annual performance related bonus and eligibility for an award under a long-term incentive plan which is also company performance related. Certain elements of Directors' bonuses paid by the company are linked to the standards of performance of the company, and therefore, in accordance with RAG 3.06, the following disclosures deal with these bonuses only.

Base salary for the Managing Director and his direct reports is set and reviewed by the Anglian Water Group Remuneration Committee. These decisions take into account external benchmark comparators.

### Annual performance bonus

Directors' bonuses relate to both company performance and personal objectives. At the start of the performance year, the Remuneration Committee determines appropriate performance measures for the company, and sets base and stretch targets for each measure. The Remuneration Committee also sets stretching personal targets relevant to each Director. Maximum bonus is only payable for achievement of stretch targets.

For the year ended 31 March 2011 the results against these company performance measures resulted in the following assessment:

Performance measure	2011 achieved %	2011 target %	2011 achievement	Impact on bonus
Financial performance	55.0	55.0	Stretch target achieved	Full payout on this element
Capital delivery index	15.0	15.0	Stretch target achieved	Full payout on this element
Overall performance assessment (OPA)	15.4	20.0	Performance was higher than base, but less than stretch target	Payout between base and stretch
Levels of service	1.3	5.0	Base target not achieved for these two measures	Partial payment approved by Remuneration Committee in recognition of company's performance in maintaining supply to customers during exceptional winter weather
Very satisfied customers	1.3	5.0		
<b>Total</b>	<b>88.0</b>	<b>100.0</b>		

The performance assessments for Mr Simpson and Mr Longhurst are based on 91.0% rather than the 88.0% set out in the table above as the contracts for Mr Simpson and Mr Longhurst provided for 75% of their bonus to be paid for achievement of base targets, with up to 100% for stretch performance. Other senior executives receive 60% for achievement of base targets.

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

	2011 £'000	2010 £'000
P Simpson	377.5	217.4
S Longhurst	250.9	196.5
C Newsome	160.1	79.1
J Spencer	79.5	72.1
J Cox (resigned 29 January 2010)	-	434.1

For 2011/12 annual performance bonuses, the company performance will be measured based on Financial performance, Capital delivery index, Overall performance assessment (OPA), Service Incentive Mechanism (SIM). Base and Stretch targets have been set by the Remuneration Committee. Ofwat no longer uses or publishes OPA scores to monitor customer service performance, having replaced this with SIM. However, the Remuneration Committee believes that the OPA score continues to provide a relevant internal measure of customer service and has therefore retained it for performance assessment, although OPA ranking relative to other companies will no longer be an applicable measure as these will not be published by Ofwat.

## Additional information required by the licence continued

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### 2 Link between Directors' pay and standards of performance continued

#### Long-term incentives

During the year, the following Directors received benefits under the 2008 award of the company's long-term incentive scheme. Each award covers a period of three years and is linked to a basket of financial and non-financial performance measures set by the Remuneration Committee at the start of the three-year period.

The Remuneration Committee assessed performance against these targets at 57%. This resulted in the following payments to Directors:

	2011 £'000	2010 £'000
P Simpson	138.1	182.8
C Newsome	75.3	102.2
J Spencer	70.6	98.3

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The long-term incentive scheme for Mr Longhurst (and Mr Cox in 2009/10) is entirely linked to the performance of Anglian Water Group Limited and is not paid for by the company.

### 3 Information in relation to allocations and apportionments between the appointed and any other business or activity of the appointee or associated company

The non-appointed business relates mainly to legal searches to locate utility infrastructure, domestic emergency and personal accident insurance cover, recreation services, leisure services and the provision of consultancy services. The North Tees water supply agreement to the Huntsman Petrochemical site, which is not in the Anglian Water area, has also been treated as non-appointed business.

A proportion of the operating costs relating to these activities is directly incurred and does not require allocation. Other relevant costs have been allocated according to time spent on these activities, volume of water supplied to customers, or in proportion to direct costs.

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#### 4 Allocation to principal service

- (a) Operating costs are incurred directly by specific service and have not required allocation. Indirect costs are allocated on either a causal link basis or according to local managers' assessments. The allocation to principal service of the charge for infrastructure renewals is based on the Asset Management Plan (AMP).
- (b) Capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.

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

To the best of the Directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (h) below.

- (a) On 30 July 2002 £1,609.1 million was lent by the company to Anglian Water Services Holdings Limited. Receivables totalling £42.2 million were outstanding from other group companies at 31 March 2011 (2010: £1.4 million), of which £41.1 million was owed by Anglian Water Services Financing Plc, the company's financing subsidiary (2010: £nil).

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Sums borrowed including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2011, were

Type of loan	Principal amount (vi) (£m)	Repayment date	Interest rate %
Fixed rate	100.0	2014	12.375
Fixed rate	200.0	2023	6.875
Fixed rate	200.0	2029	6.625
Fixed rate	138.5	2011	7.065
Fixed rate	246.0	2030	6.293
Fixed rate (v)	275.0	2012/2037	7.882
Fixed rate	250.0	2022	5.837
Fixed rate (v)	75.0	2017/2040	5.500
Fixed rate	394.0	2016	6.940
Fixed rate	25.0	2034	6.875
Fixed rate (v)	100.0	2014/2024	6.750
Index-linked (ii)	203.7	2020	4.125
Index-linked (ii)	258.8	2032	3.070
Index-linked (ii)	78.2	2032	3.070
Index-linked (ii)	97.1	2024	3.666
Index-linked (ii)	481.7	2035	2.400
Index-linked (ii)	57.7	2046	1.700
Index-linked (ii)	58.0	2046	1.700
Index-linked (ii)	46.5	2056	1.7146
Index-linked (ii)	58.2	2056	1.6777
Index-linked (ii)	69.7	2049	1.7903
Index-linked (ii)	115.6	2057	1.3784
Index-linked (ii)	57.8	2056	1.3825
Index-linked (ii)	81.6	2062	1.4490
Index-linked (ii)	54.5	2055	1.5200
Index-linked (ii)	53.8	2019	1.626
Index-linked (ii)	52.9	2020	1.300
Index-linked (ii)	135.4	2045	2.262
Floating rate	250.0	2015	LIBOR plus 0.375
Floating rate (v)	75.0	2017/2040	LIBOR plus 0.682
Floating rate	65.9	2018/2037	LIBOR plus 0.530
Floating rate	25.1	2038	LIBOR plus 1.130
Floating rate	453.2	2013	LIBOR plus 0.9775
Floating rate	110.0	2043	LIBOR plus 0.850
Floating rate	100.0	2057	LIBOR plus 0.340
Index-linked swaps (iii), (iv)	62.7	2013	-
Index-linked swaps (iii), (iv)	6.2	2024	-
Index-linked swaps (iii), (iv)	7.1	2030	-
Index-linked swaps (iii), (iv)	14.1	2057	-
Index-linked swaps (iii), (iv)	5.9	2059	-
Index-linked swaps (iii), (iv)	4.3	2043	-
Swaption	-	2016	-
Swaption	-	2016	-
	<b>5,144.2</b>		

LIBOR is the London Inter Bank Offer Rate

## Additional information required by the licence continued

BUSINESS REVIEW

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

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

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

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

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

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

(vi) All loans are presented on a post-hedge basis to reflect the effect of the related swaps.

#### (b) Dividends payable

A dividend of £443.7 million is payable for the year (2010: £276.5 million). Of this dividend, £193.1 million (2010: £193.1 million) was paid to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million (see note 5(a) on page 124). The overall amount of the company's normal dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by AWS and in practice will be limited to a net debt to regulatory capital value (RCV) gearing ratio of 83%. The dividends declared or paid will not impair the ability of the company to finance the Appointed Business, and the dividend policy is compliant with Condition F of the Licence.

#### (c) Guarantees/securities

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2011 amounted to £5,364.9 million (2010: £5,157.9 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2011 (2010: nil).

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## (d) Supply of services

Recharges by the appointee to associated companies

Nature of transaction	Company	Terms of supply	Value £m
Legal	AWG Central Services Limited	Actual costs	0.2
Human resources and payroll charges	AWG Central Services Limited	Actual costs	0.7
Corporate responsibility and communications	AWG Central Services Limited	Actual costs	0.5
Treasury charges	AWG Central Services Limited	Actual costs	0.4
Laboratory charges	AWG Central Services Limited	Actual costs	0.1
IT charges	AWG Central Services Limited	Actual costs	0.2
Accommodation charges	AWG Central Services Limited and AWG Group Limited	Actual costs	0.2
Land rental	Alpheus Environmental Limited	Actual costs	0.2
Trade effluent charges	Alpheus Environmental Limited	Actual costs	0.1
Sewerage and tankering and transport services	AWG Group Limited and Alpheus Environmental Limited	Actual costs	0.2

Services supplied to the appointee by associated companies excluding amounts paid for taxation group relief

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Directors' costs	AWG Central Services Limited	-	Time apportionment	0.5
Internal audit services	AWG Central Services Limited	-	Negotiated	0.6
Insurance administration	AWG Central Services Limited	-	Negotiated	0.5
Taxation services	AWG Central Services Limited	-	Negotiated	0.2
External audit services	AWG Central Services Limited	-	Pass through	0.2
Pension admin, advice and audit	AWG Central Services Limited	-	Pass through	0.1
10-year office lease	Ambury Developments	0.8	Other market testing	0.2
Rental of office accommodation	Ambury Developments	0.8	Other market testing	0.2
Bulk purchase of water	Ardleigh Reservoir Committee	12	Other market testing	0.8
Rental of office accommodation	AWG Group Limited	-	Other market testing	0.2
				3.5

## (e) Charitable and political donations and other

During the year, Anglian Water donated £40,000 (2010 £40,000) to WaterAid, its recognised charity. No political donations were made (2010 Nil).

The company made available £0.75 million (2010 £0.75 million) to the Anglian Water Assistance Fund, which paid a total of £0.6 million (2010 £0.4 million) directly to customers who qualified for assistance, and that amount is included as an operating cost in these financial statements.

## (f) Omissions of rights

No material omissions took place during the year.

## (g) Waivers

There were no material waivers during the year.

## (h) Ring fencing

The company has been compliant with Condition K31 of the Licence throughout the year.



## Current cost profit and loss account for the appointed business

for the year ended 31 March

Notes		2011 Appointed £m	2010 Appointed £m
2	<b>Turnover</b>	<b>1,079 3</b>	1,086 4
4	Current cost operating costs	(758 1)	(742 1)
3	Operating income	0 8	0 3
		<b>322 0</b>	344 6
3 9	Working capital adjustment	(2 7)	(1 5)
	<b>Current cost operating profit</b>	<b>319 3</b>	343 1
	Net interest payable	(152 8)	(67 4)
9	Financing adjustment	21 1	16 8
	<b>Current cost profit before taxation</b>	<b>187.6</b>	292 5
	Current tax	(12 1)	(51 1)
	Deferred tax	(15 1)	11
	<b>Current cost profit attributable to shareholder</b>	<b>160 4</b>	242 5
	Dividends	(443 7)	(276 5)
8	<b>Current cost transfer from reserves</b>	<b>(283 3)</b>	(34 0)

The notes on pages 131 to 140 form part of these current cost financial statements

## Current cost balance sheet for the appointed business

as at 31 March

Notes	2011 £m	2010 £m
<b>Fixed assets</b>		
5	29,689.5	28,264 0
	(915 4)	(851 4)
	<b>28,774 1</b>	<b>27,412 6</b>
<b>Working capital</b>		
6	78 4	51 1
	109 0	162 4
	406 2	473 9
	47 3	45 7
	<b>29,415.0</b>	<b>28,145 7</b>
<b>Non-operating assets and liabilities</b>		
7	(141 4)	(2 5)
	45 1	3 0
	(106 9)	(103 3)
	1,609 1	1,609 1
	(60 7)	(75 8)
	<b>1,345 2</b>	<b>1,430 5</b>
<b>Creditors: amounts falling due after more than one year</b>		
7	(5,047 0)	(5,029 7)
	(10 9)	(6 2)
	<b>(5,057 9)</b>	<b>(5,035 9)</b>
<b>Provisions for liabilities and charges</b>		
	(33 1)	(28 0)
	(68 6)	(141 2)
	(26.1)	(23 0)
	<b>(127 8)</b>	<b>(192 2)</b>
	<b>25,574.5</b>	<b>24,348 1</b>
<b>Capital and reserves</b>		
	10 0	860 0
8	171 2	(457 9)
9	25,393 3	23,946 0
	<b>25,574.5</b>	<b>24,348 1</b>

The notes on pages 131 to 140 form part of these current cost financial statements

The financial statements were approved by the board of Directors on 17 June 2011 and signed on its behalf by

Peter Simpson  
Director

Scott Longhurst  
Director




## Current cost cash flow statement

for the year ended 31 March

Notes	2011			2010			
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m	
10(a)	<b>Net cash inflow from operating activities</b>	<b>626 0</b>	<b>6 1</b>	<b>632 1</b>	652 7	6 1	658 8
	<b>Returns on investment and servicing of finance</b>						
	Interest received	197 0	-	197 0	196 1	-	196 1
	Interest paid	(222 0)	-	(222 0)	(227 3)	-	(227 3)
	Interest element of finance lease rental payments	(3 3)	-	(3 3)	(3 4)	-	(3 4)
	<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(28.3)</b>	<b>-</b>	<b>(28 3)</b>	(34 6)	-	(34 6)
	<b>Taxation</b>						
	Corporation tax paid	(0 5)	(1.7)	(2 2)	(1 4)	(1 7)	(3 1)
	Payments to other Anglian Water Group Limited group undertakings	(25 1)	-	(25 1)	(58 2)	-	(58 2)
	<b>Taxation</b>	<b>(25 6)</b>	<b>(1 7)</b>	<b>(27 3)</b>	(59 6)	(1 7)	(61 3)
	<b>Capital expenditure and financial investment</b>						
	Gross cost of purchase of tangible fixed assets	(203 7)	-	(203.7)	(289 0)	-	(289 0)
	Receipts of grants and contributions	24 0	-	24 0	19 8	-	19 8
	Infrastructure renewals expenditure	(73 6)	-	(73 6)	(64 3)	-	(64 3)
	Disposal of fixed assets	2 3	-	2 3	0 2	-	0 2
	<b>Net cash outflow from investing activities</b>	<b>(251 0)</b>	<b>-</b>	<b>(251 0)</b>	(333 3)	-	(333 3)
	<b>Equity dividends paid</b>	<b>(443 7)</b>	<b>(4 4)</b>	<b>(448 1)</b>	(276 5)	(4 3)	(280 8)
	<b>Management of liquid resources</b>						
	Net cash inflow from management of liquid resources	22 2	-	22 2	172 4	-	172 4
	<b>Net cash (outflow)/inflow before financing</b>	<b>(100 4)</b>	<b>-</b>	<b>(100 4)</b>	1211	-	1211
	<b>Financing</b>						
	Increase in loans	130 0	-	130 0	204 6	-	204 6
	Repayment of amounts borrowed	(80 5)	-	(80 5)	(388 3)	-	(388 3)
	Capital element of finance lease rentals	(2 5)	-	(2.5)	(2 2)	-	(2 2)
	<b>Net cash inflow/(outflow) from financing</b>	<b>47 0</b>	<b>-</b>	<b>47 0</b>	(185 9)	-	(185 9)
	<b>(Decrease)/increase in cash</b>	<b>(53 4)</b>	<b>-</b>	<b>(53 4)</b>	(64 8)	0 1	(64 7)

The notes on page 140 form part of this cash flow statement

## Notes to the current cost financial statements

### 1 Current cost accounting policies

#### (a) General

These financial statements have been prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry

They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business

The regulatory accounts are separate from the statutory financial statements of the company. There are differences between the United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed.

The accounting policies used are the same as those adopted in the statutory financial statements, except as set out below.

#### (b) Turnover

Turnover includes all amounts billed to customers in respect of those items detailed in the accounting policy on page 122 as required by RD 05/08.

#### (c) Tangible fixed assets

Tangible fixed assets have been valued in accordance with Regulatory Accounting Guideline 104 (Guideline for accounting for current costs and regulatory capital values) on a modern equivalent asset (MEA) basis.

Depreciation is charged over the estimated remaining economic life of the asset. Infrastructure assets are not depreciated.

Additions during the year are taken at their historic cost values. Disposals are stated at the value of the replacement assets.

#### (i) Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use as part of the periodic Asset Management Plan (AMP) reviews and are expressed in real terms by indexation using the Retail Price Index (RPI) thereafter.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic AMP reviews by adjusting for inflation or deflation as measured by changes in the RPI. The unamortised portion of third-party contributions received is deducted in arriving at net operating assets (as described below).

#### (ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, on an MEA basis, determined principally on the basis of data provided by the AMP.

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation or deflation, as measured by changes in the RPI over the year.

#### (iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement costs. Between periodic AMP reviews, values are restated for inflation or deflation as measured by changes in the RPI.

#### (iv) Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence.

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## Notes to the current cost financial statements continued

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### 1 Current cost accounting policies continued

#### (d) Modern equivalent asset (MEA) valuation

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

#### (e) Grants and other third-party contributions

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

#### (f) Real financial capital maintenance adjustments

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

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

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

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

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

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

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**2 Turnover for the appointed business**

	2011			2010		
	Water service £m	Sewerage service £m	Appointed total £m	Water service £m	Sewerage service £m	Appointed total £m
Measured	265.0	389.3	654.3	263.0	381.2	644.2
Unmeasured	129.2	207.2	336.4	136.9	218.7	355.6
Trade effluent	-	77	77	-	72	72
Large user and special agreement	31.8	28.8	60.6	31.4	27.6	59.0
Non-potable large user and special agreement	11.4	-	11.4	10.9	-	10.9
Rechargeable works	0.4	-	0.4	0.5	-	0.5
Bulk supplies/inter-company payments	6.1	1.7	7.8	5.9	1.6	7.5
Third-party services (including non-potable water)	17.9	1.7	19.6	17.3	1.6	18.9
Other sources	0.8	(0.1)	0.7	1.4	0.1	1.5
<b>Total turnover</b>	<b>444.7</b>	<b>634.6</b>	<b>1,079.3</b>	<b>450.0</b>	<b>636.4</b>	<b>1,086.4</b>

**3 Operating income and working capital adjustment for the appointed business**

	2011			2010		
	Water service £m	Sewerage service £m	Appointed total £m	Water service £m	Sewerage service £m	Appointed total £m
Current cost profit/(loss) on disposal of fixed assets	1.5	(0.7)	0.8	0.1	0.2	0.3
Working capital adjustment	(1.4)	(1.3)	(2.7)	(0.7)	(0.8)	(1.5)

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## Notes to the current cost financial statements continued

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

	2011 Service analysis							
	Water service				Sewerage service			
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewerage treatment and disposal subtotal £m	Sewerage service subtotal £m
<b>Direct costs:</b>								
Employment costs	8 0	8 2	16 2	9 8	19.8	12 4	32.2	42 0
Power	13 3	9 4	22 7	4 8	19 2	0 4	19 6	24 4
Hired and contracted services	3 6	10 3	13 9	6 3	10 2	13.1	23 3	29 6
Materials and consumables	4 3	2 1	6 4	2 5	8 1	11 8	19 9	22 4
Services charges	11 8	-	11.8	1 1	5 5	-	5 5	6 6
Bulk supply imports	1.2	-	1 2	-	-	-	-	-
Other direct costs	0.3	0 5	0 8	0 3	0 2	0 2	0 4	0 7
<b>Total direct costs</b>	<b>42 5</b>	<b>30 5</b>	<b>73 0</b>	<b>24 8</b>	<b>63 0</b>	<b>37 9</b>	<b>100 9</b>	<b>125 7</b>
General and support expenditure	11.5	10 0	21 5	5 9	14 0	9 2	23 2	29 1
<b>Total functional expenditure</b>	<b>54 0</b>	<b>40 5</b>	<b>94.5</b>	<b>30 7</b>	<b>77 0</b>	<b>47.1</b>	<b>124.1</b>	<b>154 8</b>
<b>Business activities.</b>								
Customer services			15 3					19 6
Scientific services			6.5					3 7
Other business activities			2 1					3.7
<b>Total business activities</b>			<b>23 9</b>					<b>27 0</b>
Rates			31.4					19 6
Doubtful debts			14 9					18 9
Exceptional items			-					-
<b>Total less third-party services</b>			<b>164 7</b>					<b>220 3</b>
Third-party services			6 7					0 6
<b>Total operating costs</b>			<b>171.4</b>					<b>220 9</b>
<b>Capital costs</b>								
Infrastructure renewals charge	0 3	34 1	34 4	37 5	-	-	-	37 5
Depreciation <sup>1</sup> (allocated)	58.9	28 8	87 7	41 5	125 4	22 6	148 0	189 5
Amortisation of deferred grants			(2 9)					(4 9)
Business activities depreciation <sup>1</sup> (non-allocated)			7 8					11 7
<b>Capital maintenance excluding third-party services</b>			<b>127 0</b>					<b>233 8</b>
Third-party services - capital maintenance			3 9					1.1
<b>Total capital maintenance</b>			<b>130 9</b>					<b>234 9</b>
<b>Total operating costs<sup>2</sup></b>			<b>302 3</b>					<b>455 8</b>
<b>Current cost accounting (modern equivalent asset values)</b>								
Service activities	1,226.2	7,126 5	8,352 7	19,472.7	1,655 8	208 3	1,864 1	21,336 8
Business activities			(19 9)					(29 8)
<b>Service totals</b>			<b>8,332 8</b>					<b>21,307 0</b>
Service assets for third parties			(54 7)					(7 8)
<b>Total</b>			<b>8,278 1</b>					<b>21,299 2</b>

<sup>1</sup> On a current cost basis<sup>2</sup> Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £18 5 million. This is split £13 5 million water distribution and £5 0 million sewerage

	2010 Service analysis							
	Water service				Sewerage service			
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewerage treatment and disposal subtotal £m	Sewerage service subtotal £m
<b>Direct costs:</b>								
Employment costs	72	68	140	104	19.3	113	306	410
Power	161	117	278	77	24.7	12	259	336
Hired and contracted services	32	94	126	53	8.5	131	216	269
Materials and consumables	43	18	61	23	7.0	110	180	203
Services charges	10.9	-	10.9	12	5.4	-	5.4	6.6
Bulk supply imports	12	-	12	-	-	-	-	-
Other direct costs	0.1	0.4	0.5	0.4	0.5	0.2	0.7	1.1
<b>Total direct costs</b>	<b>430</b>	<b>301</b>	<b>731</b>	<b>273</b>	<b>65.4</b>	<b>368</b>	<b>102.2</b>	<b>129.5</b>
General and support expenditure	9.2	8.2	17.4	5.7	12.5	7.4	19.9	25.6
<b>Total functional expenditure</b>	<b>522</b>	<b>383</b>	<b>90.5</b>	<b>330</b>	<b>77.9</b>	<b>44.2</b>	<b>122.1</b>	<b>155.1</b>
<b>Business activities:</b>								
Customer services			13.9					17.7
Scientific services			6.1					3.8
Other business activities			2.1					3.7
<b>Total business activities</b>			<b>22.1</b>					<b>25.2</b>
Rates			28.0					18.3
Doubtful debts			16.0					19.7
Exceptional items			1.1					7.7
<b>Total less third-party services</b>			<b>157.7</b>					<b>226.0</b>
Third-party services			4.2					0.6
<b>Total operating costs</b>			<b>161.9</b>					<b>226.6</b>
<b>Capital costs:</b>								
Infrastructure renewals charge	4.1	39.1	43.2	3.8	-	-	-	3.8
Depreciation <sup>1</sup> (allocated)	55.4	27.4	82.8	40.2	123.3	20.7	144.0	184.2
Amortisation of deferred grants			(2.7)					(4.8)
Business activities depreciation <sup>1</sup> (non-allocated)			5.7					8.5
Capital maintenance excluding third-party services			129.0					219.7
Third-party services - capital maintenance			3.8					1.1
<b>Total capital maintenance</b>			<b>132.8</b>					<b>220.8</b>
<b>Total operating costs<sup>2</sup></b>			<b>294.7</b>					<b>447.4</b>
<b>Current cost accounting</b> (modern equivalent asset values)								
Service activities	1,174.9	6,754.5	7,929.4	18,270.5	1,870.0	194.1	2,064.1	20,334.6
Business activities			(12.3)					(18.5)
<b>Service totals</b>			<b>7,917.1</b>					<b>20,316.1</b>
Service assets for third parties			(55.7)					(8.4)
<b>Total</b>			<b>7,861.4</b>					<b>20,307.7</b>

<sup>1</sup> On a current cost basis

<sup>2</sup> Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £13.2 million. This is split £9.5 million water distribution and £3.7 million sewerage



## Notes to the current cost financial statements continued

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## 5 Fixed assets

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
<b>(a) Fixed assets by type - water service</b>					
<b>Gross replacement cost</b>					
At 1 April 2010	2,649 3	17 4	6,741 8	191 3	9,599 8
RPI adjustment	141 4	0 9	360 5	10 5	513 3
Disposals	(19 3)	-	-	(7 3)	(26 6)
Additions	64 1	0 2	18 1	16 3	98 7
<b>At 31 March 2011</b>	<b>2,835 5</b>	<b>18 5</b>	<b>7,120 4</b>	<b>210 8</b>	<b>10,185 2</b>
<b>Depreciation</b>					
At 1 April 2010	(1,518 5)	(4 6)	-	(147 3)	(1,670 4)
RPI adjustment	(81 4)	(0 2)	-	(7 6)	(89 2)
Disposals	19 2	-	-	7 3	26 5
Charge for the year	(81 4)	(0 2)	-	(17 8)	(99 4)
<b>At 31 March 2011</b>	<b>(1,662 1)</b>	<b>(5 0)</b>	<b>-</b>	<b>(165.4)</b>	<b>(1,832.5)</b>
<b>Net book amount at 31 March 2011</b>	<b>1,173 4</b>	<b>13 5</b>	<b>7,120 4</b>	<b>45 4</b>	<b>8,352 7</b>
Net book amount at 1 April 2010	1,130 8	12 8	6,741 8	44 0	7,929 4
<b>(b) Fixed assets by type - sewerage service</b>					
<b>Gross replacement cost</b>					
At 1 April 2010	6,047 0	19 3	17,922 5	2971	24,285 9
RPI adjustment	323 2	10	958 3	15 8	1,298 3
Disposals	(16)	-	-	(10 9)	(12 5)
Additions	81 2	0 3	13 0	24 4	118 9
<b>At 31 March 2011</b>	<b>6,449 8</b>	<b>20 6</b>	<b>18,893 8</b>	<b>326 4</b>	<b>25,690 6</b>
<b>Depreciation</b>					
At 1 April 2010	(3,733 0)	(4 8)	-	(213 5)	(3,951 3)
RPI adjustment	(199 5)	(0 3)	-	(11 6)	(211 4)
Disposals	0 3	-	-	10 9	11 2
Charge for the year	(175 4)	(0 2)	-	(26 7)	(202 3)
<b>At 31 March 2011</b>	<b>(4,107 6)</b>	<b>(5 3)</b>	<b>-</b>	<b>(240 9)</b>	<b>(4,353 8)</b>
<b>Net book amount at 31 March 2011</b>	<b>2,343 2</b>	<b>15 3</b>	<b>18,893 8</b>	<b>85 5</b>	<b>21,336 8</b>
Net book amount at 1 April 2010	2,314 0	14 5	17,922 5	83 6	20,334 6
<b>(c) Fixed assets by type - total</b>					
<b>Gross replacement cost</b>					
At 1 April 2010	8,696 3	36 7	24,664 3	488 4	33,885 7
RPI adjustment	464 6	19	1,318 8	26 3	1,811 6
Disposals	(20 9)	-	-	(18 2)	(39 1)
Additions	145 3	0 5	31 1	40 7	217 6
<b>At 31 March 2011</b>	<b>9,285 3</b>	<b>39 1</b>	<b>26,014 2</b>	<b>537 2</b>	<b>35,875 8</b>
<b>Depreciation</b>					
At 1 April 2010	(5,251 5)	(9 4)	-	(360 8)	(5,621 7)
RPI adjustment	(280 9)	(0 5)	-	(19 2)	(300 6)
Disposals	19 5	-	-	18 2	37 7
Charge for the year	(256 8)	(0 4)	-	(44 5)	(301 7)
<b>At 31 March 2011</b>	<b>(5,769.7)</b>	<b>(10 3)</b>	<b>-</b>	<b>(406 3)</b>	<b>(6,186 3)</b>
<b>Net book amount at 31 March 2011</b>	<b>3,515 6</b>	<b>28 8</b>	<b>26,014 2</b>	<b>130 9</b>	<b>29,689 5</b>
Net book amount at 1 April 2010	3,444 8	27 3	24,664 3	127 6	28,264 0

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

	Tangible fixed assets £m
<b>Cost</b>	
At 31 March 2011 per regulatory financial statements	35,875.8
Adjustment to opening balance at 31 March	(27,786.3)
Infrastructure renewals expenditure capitalised in the year	73.6
<b>At 31 March 2011 per statutory financial statements</b>	<b>8,163.1</b>
<b>Grants and contributions</b>	
At 31 March 2011 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(256.1)
<b>At 31 March 2011 per statutory financial statements</b>	<b>(256.1)</b>
<b>Depreciation</b>	
At 31 March 2011 per regulatory financial statements	(6,186.3)
Adjustment to opening balance at 31 March	3,030.1
Depreciation charge for infrastructure renewals expenditure	(72.0)
<b>At 31 March 2011 per statutory financial statements</b>	<b>(3,228.2)</b>
<b>Net book value</b>	
At 31 March 2011 per regulatory financial statements	29,689.5
Adjustment to opening balance at 31 March	(25,012.3)
Infrastructure renewals expenditure capitalised in the year	73.6
Depreciation charge for infrastructure renewals expenditure	(72.0)
<b>At 31 March 2011 per statutory financial statements</b>	<b>4,678.8</b>
<b>Infrastructure renewals prepayment</b>	
At 31 March 2011 per regulatory financial statements	47.3
Less infrastructure renewals prepayment	(47.3)
<b>At 31 March 2011 per statutory financial statements</b>	<b>-</b>

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## Notes to the current cost financial statements continued

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### 6 Working capital

	2011 £m	2010 £m
Stocks	9 6	10 1
Trade debtors - measured household	76 3	79 4
Trade debtors - unmeasured household	61 1	59 2
Trade debtors - measured non-household	13 9	18 3
Trade debtors - unmeasured non-household	0 5	0 4
Other trade debtors	15 9	13 4
Measured income accrual	144 2	121 4
Prepayments and other debtors	15.3	16 5
Trade creditors	(56 1)	(79 8)
Deferred income - customer advance receipts	(115 9)	(125 1)
Short-term capital creditors	(55 5)	(32 9)
Accruals and other creditors	(30.9)	(29 8)
<b>Total working capital</b>	<b>78 4</b>	<b>51 1</b>

### 7 Net debt analysis

#### Interest rate risk profile at 31 March 2011

	Total £m	Index- linked £m	Floating rate £m	Fixed rate £m
<b>Loans and other borrowings</b>				
Less than one year	(141 4)	-	-	(141 4)
Between one and two years	(3 3)	-	-	(3 3)
Between two and five years	(882 4)	(570 4)	(195 1)	(116 9)
Between five and 20 years	(1,591 2)	(412 9)	-	(1,178 3)
In more than 20 years	(2,570.1)	(1,867 5)	(85 0)	(617 6)
<b>Total borrowings</b>	<b>(5,188 4)</b>	<b>(2,850 8)</b>	<b>(280.1)</b>	<b>(2,057 5)</b>
Cash	109 0			
Short-term deposits	406 2			
<b>Net debt</b>	<b>(4,673 2)</b>			

## Interest rate risk profile at 31 March 2010

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

**8 Current cost profit and loss account**

	2011 £m	2010 £m
At beginning of the year	<b>(457.9)</b>	(345 8)
Transfer to profit and loss account for the year	<b>(283.3)</b>	(34 0)
	<b>(741 2)</b>	(379 8)
Actuarial gains/(losses) recognised in pension scheme	<b>86.2</b>	(108 4)
Current tax relating to the actuarial loss in the pension scheme	-	31
Impact of change in tax rate on deferred tax on pension schemes	<b>0.3</b>	-
Movement on deferred tax relating to the actuarial (gain)/loss in the pension scheme	<b>(24 1)</b>	27 2
Capital reduction	<b>850 0</b>	-
<b>At end of year</b>	<b>171 2</b>	(457 9)

**9 Movement on current cost reserve**

	2011 £m	2010 £m
At beginning of the year	<b>23,946 0</b>	18,742 8
AMP adjustment	-	4,050 4
RPI adjustments		
- Fixed assets	<b>1,511 2</b>	1,203 8
- Working capital	<b>2 7</b>	15
- Financing	<b>(21.1)</b>	(16 8)
- Grants and third-party contributions	<b>(45 5)</b>	(35 7)
<b>At end of year</b>	<b>25,393 3</b>	23,946 0

The AMP adjustment in the year ended 31 March 2010 relates to the reassessment of gross asset values and cumulative depreciation as part of the Price Review 2009

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## Notes to the current cost financial statements continued

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

	2011 £m	2010 £m
Current cost operating profit	319.3	343.1
Working capital adjustment	2.7	1.5
Movement in working capital	(34.4)	(19.4)
Current cost depreciation	293.9	278.6
Current cost profit on sale of fixed assets	(0.8)	(0.3)
Infrastructure renewals charge	72.0	75.0
Difference between pension charge and cash contributions	(26.5)	(25.6)
Net movement in provisions	(0.2)	(0.2)
<b>Net cash inflow from operating activities</b>	<b>626.0</b>	<b>652.7</b>

### 10 (b) Analysis of net debt

	1 April 2010 £m	Cash flows £m	Non-cash movements £m	31 March 2011 £m
Cash	162.4	(53.4)	-	109.0
Deposits and investments	473.9	(67.7)	-	406.2
Finance leases due within one year	(2.5)	2.5	(2.9)	(2.9)
Finance leases due after one year	(62.2)	-	0.1	(62.1)
Other debt due within one year	-	-	(138.5)	(138.5)
Other debt due after one year	(4,967.5)	(49.5)	32.1	(4,984.9)
	<b>(4,395.9)</b>	<b>(168.1)</b>	<b>(109.2)</b>	<b>(4,673.2)</b>

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

## Supplementary regulatory information

### 1 Regulatory capital value (RCV)

	2011 £m
RCV at 31 March 2010 as published in RD06/09	5,521.7
Indexation	295.2
RCV at 31 March 2010 in March 2011 prices	5,816.9
Capital expenditure (excluding IRE)	331.1
Infrastructure renewals expenditure (IRE)	76.0
Infrastructure renewals charge	(76.8)
Grants and contributions	(26.3)
Depreciation	(246.8)
Outperformance of regulatory assumptions (five years in arrears)	(5.5)
<b>Closing RCV</b>	<b>5,868.6</b>
<b>Average RCV</b>	<b>5,692.0</b>

RCV figures are extracted from those published by Ofwat on 7 May 2010 in their RD04/10 letter at 2009/10 prices. These have been indexed upwards to 2010/11 prices using an RPI factor of 232.5/220.7 (RPI at 31 March 2011/RPI at 31 March 2010) to give the current year figures in the table excluding average RCV. The average RCV is derived by indexing the average RCV published in RD04/10 by the RPI factor of 226.5/215.8 (average RPI for the year ended 31 March 2011/average RPI for the year ended 31 March 2010). The indices that have been used to inflate the RCVs to 2010/11 prices have been extracted from those published by Ofwat on its website.

The table shows the RCV used in setting the price limits for 2010/11. The differences between the assumptions for the component parts such as capital expenditure shown above and the actual amounts do not affect the price limits in the current review period. Capital efficiencies achieved in the current price-setting period will be taken into account in the calculation of the RCV used to set prices for the next review period. Other adjustments to the RCV used for the next review period will be agreed with Ofwat through the process of logging up/logging down of capital expenditure.

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## Independent auditors' report

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### Independent Auditors' report to the Water Services Regulation Authority (the Authority, referred to as the 'WSRA') and the Directors of Anglian Water Services Limited

We have audited the regulatory accounts of Anglian Water Services Limited ('the Company') for the year ended 31 March 2011 on pages 117 to 140 (the 'Regulatory Accounts') which comprise

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost statement of total recognised gains and losses for the appointed business, the regulatory historical cost balance sheet and the historical cost reconciliation between the statutory financial statements and the Regulatory Accounts, and
- the regulatory current cost accounting statements comprising the current cost profit and loss account for the appointed business, the current cost balance sheet for the appointed business, the current cost cash flow statement and the related notes

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These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the notes

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F") Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed

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Respective responsibilities of the WSRA, the Directors and Auditors  
As explained more fully in the Statement of Directors' Responsibilities set out on page 116 the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

#### Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the 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 Regulatory Accounts In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report

REGULATORY ACCOUNTS

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland)

#### Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts

- fairly present in accordance with Condition F the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 131 to 132, the state of the Company's affairs at 31 March 2011 on an historical

cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended, and

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies

#### Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006 Furthermore, the regulatory historical cost accounting statements on pages 118 and 120 have been drawn up in accordance with Regulatory Accounting Guideline 3 06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 121

#### Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records In our opinion

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F, and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts

#### Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes Accordingly we make no such assessment

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2011 on which we reported on 27 May 2011, which are prepared for a different purpose Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

*PricewaterhouseCoopers*  
**PricewaterhouseCoopers LLP**  
 Chartered Accountants and Statutory Auditors

Birmingham  
 17 June 2011

1 The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions



## Glossary of regulatory terms

BUSINESS REVIEW

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

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

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

**Asset Management Plan (AMP)** - A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP3 covered the investment period April 2000 to March 2005. AMP5 covers April 2010 to March 2015.

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

**Capital Incentive Scheme (CIS)** - Mechanism introduced by Ofwat to encourage companies to submit challenging and accurate estimation of their capital investment requirements at Price Reviews.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Service Incentive Mechanism (SIM)** - Ofwat's measure of customer satisfaction based on surveys of customers who have contacted the company and the number of contacts received which express dissatisfaction.

**Third-party contributions since 1989/90** - Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.

**VSAT** - Very Satisfied - An Anglian Water tool for monitoring ongoing customer satisfaction based on customer surveys.

**Working capital** - The aggregate of stocks, trade debtors and trade creditors, if material.

**Working capital adjustment** - The impact of general inflation (RPI) on the real value of working capital to the business.

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

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