Anglian Water Services Limited

(Registered number 2366656)

Annual report and financial statements

For the year ended 31 March 2012

1.5m litres

Our water efficiency campaigns save an estimated 1 5 million litres of water a day

£10m

We delivered £10 million of sustainable operational efficiencies this year

6%

We beat our leakage target by over 6% this year

32%

Intelligent design has delivered a 32% reduction in embodied carbon

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ANGLIAN WATER AT A GLANCE

Serving our customers

OUR GOAL IS 100% CUSTOMER SATISFACTION

6 3 million water and wastewater customers rely on us

Over 125,000 businesses depend on our water supply

Customer call centres in Huntingdon, Lincoln and Hartlepool

Tariffs to support our more vulnerable customers

Investing:

£94 MILLION[1]
to enhance levels of customer service

P51
Read more about our focus on delivering excellent customer service

[1] Gross sums assumed by Ofwat (in 2007/08 prices) before deducting grants and contributions

Investing for the future

Investing:
a total of

£2 3 BILLION[1]

£588 MILLION[1]
meeting the needs of our growing region

£1,224 MILLION[1]
to maintain the region's water and wastewater infrastructure

£390 MILLION[1]
on enhancing quality and environmental improvements

Supporting regional growth to bolster supplies, and build pipelines and new treatment works

P38 and 39
Read more

Safe drinking water is our priority

24 hours a day, 365 days a year 142 water treatment works, treating, monitoring and safeguarding public drinking water

Supplying 11 billion litres of high-quality drinking water every day through over 37,500 kilometres of water mains

Safeguarding supplies through our water efficiency campaigns - delivering a saving of 1 5 million litres every day

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

99 96% overall drinking water compliance in 2011

Beating our leakage target (set by Ofwat) by over 6% - the lowest ever level of leakage

Investing:
£14 million every year on driving down leakage

P40 to 47
Read more

Sustainable collection and treatment of wastewater

Every day
927 million litres
of wastewater is flushed through 76,200 kilometres of sewers to our 1,119 wastewater treatment works

Collecting and treating waste from 2 44 million households and over 110,000 businesses

Committed to reducing sewer blockages in 'hot spot' areas with our award-winning Keep it Clear campaign

Working towards 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

P47
Read more about our wastewater services

Protecting the environment

Committed to reducing operational and embodied carbon

22% of the energy we use comes from renewable sources, such as gas and biosolids

We're responsible for 47 Sites of Special Scientific Interest

17 Blue Flags fly at beaches along our coastline

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

Our award-winning RiverCare project (with Keep Britain Tidy) has 17,000 volunteers litter picking and carrying out biodiversity checks along our riverbanks

Published our *Small Steps Big Impacts* report into the link between energy and water

P69
Read more about how we protect the environment

Welcoming visitors to our water parks

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

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

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

P55
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 We bring together and work with leaders and organisations from our communities and the world of politics, regulation, land use, business and science

We're contributing to a number of projects with the University of Cambridge's Sustainable Leadership Programme, including their Climate Change Leaders' Group

We enjoy Business in the Community's 'Platinum' status, which places us in the Top 10 of the UK's most sustainable companies

P65
Read more

Working for our region

Our infrastructure underpins economic development across the east of England

3,800
direct employees

In addition, many thousands of people are employed directly and indirectly through our supply chain

Contributing over
£100 MILLION
a year to the regional economy in direct employee salaries, and significantly greater in the context of indirect employees with our business partners

P74
Read more

PERFORMANCE HIGHLIGHTS 2011/12

The driest winter for over 100 years

The 12 months up to the end of March 2012 were the driest in the Anglian Water region for over a century, with rainfall of just 403mm - 68% of the long-term average.

Our priorities have been securing customers' supplies, investing in leakage reduction, driving down demand by increased metering and enhanced water efficiency campaigns, and developing investment programmes for water sharing to safeguard resources in the long term

- **Beaten** our leakage target by over 6%
- **Water efficiency** campaigns have delivered estimated saving of 1 5 million litres a day
- **Dramatically reduced** the time between finding and repairing leaks - down to 48 hours in many cases

Read more P23, 24 and 26

Focus on customer service

Constantly improving results from Ofwat's Service Incentive Mechanism (SIM) qualitative satisfaction survey.

- Ended the year **second in the customer qualitative satisfaction survey** of Water and Sewerage companies - having topped the table in the fourth quarter
- SIM customer satisfaction score for the year was **4.54 out of 5 (qualitative)**
- **Unwanted calls (dissatisfaction) reduced by 47%**
- Written complaints **reduced by 15%**
- Repeat complaints **reduced by 77%** with **98% first-time complaint reduction**
- **Proactively** contacted over 30,000 customers during the year to ask for feedback on our service

Read more P25 and 51 to 55

Improving our efficiency and flexibility

Our focus has been on finding more efficient ways of working.

- **Delivered** around £10 million of incremental operational cost savings, helping to offset cost factors such as rates, the Carbon Reduction Commitment and our adoption of an extra 31,200 kilometres of private sewers
- **We have benefited** from realising the link between cutting operational costs and reduced the embodied carbon in our processes and operations
- **Achieved** a 32% reduction in embodied carbon, delivered through intelligent design

Read more P56 and 57

Meeting the challenges of growth and climate change

Climate change remains one of the biggest challenges facing our business.

- We met our energy efficiency targets this year, delivering savings of **over 9 GWh**
- We now generate **over 5%** of our own electricity needs through renewable power plants based on our own sites
- This year we generated **45.9 GWh** of renewable energy
- Committed to reducing operational carbon emissions by **10%** in real terms by 2015 and to halving our embodied carbon in new assets we build in 2015 from a 2010 baseline
- Our longer term aspiration is a 50% reduction in emissions by 2035 from a 2010 baseline

Read more P58 to 64

BUSINESS REVIEW
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Planning and investing

Dealing with the impacts of a growing population remains a key focus.

- **Investing** £2 3 billion[1] to 2015 - £407 million in 2011/12
- **Work began** on several projects supporting regional growth - bolstering supplies, new pipelines and new water treatment works
- **We continue** to work with the University of Cambridge Programme for Sustainability Leadership, contributing to The Prince of Wales's Corporate Leaders Group on Climate Change
- We were placed in **the top 10** of the UK's most sustainable companies by Business in the Community

Read more P65 to 68

Maintaining drinking water quality

Our record on drinking water quality remained excellent in 2011 with an overall compliance score of 99.96%.

Our five-year programme of investment in drinking water continues as we invest in proactive catchment management as well as increasing the capabilities at our water treatment works

To date, we have completed the installation of 22 new phosphate dosing processes across our region to reduce the amount of lead that is dissolved in water Our industry-leading integrated strategy to lower the level of lead in tap water in our region also includes the replacement of lead pipes and a programme of work with local authorities, housing associations and health professionals to raise awareness and encourage the replacement of domestic lead pipework

Read more P47 to 49

[1] Gross sums assumed by Ofwat (in 2007/08 prices) before deducting grants and contributions

Wastewater treatment works compliance

An exceptionally cold winter followed by a record dry spring in 2011 put significant pressure on our wastewater operation Despite this, performance remained within target.

Our bathing waters achieved 100% compliance with the Bathing Water Directive for a record 11th year - over 85% of them also achieved the higher standard, with 17 beaches now flying the coveted Blue Flag

Our innovative and award-winning Keep it Clear campaign was launched in October, helping us towards our business goal of 'no pollutions' with blockages reduced by some 40% in pollution hot spots

Read more P29 and 31

Consulting on pension benefits

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

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

Read more P31 and 78

KEY PERFORMANCE INDICATORS (KPIs)

Operational

Environmental

Drinking water quality[1]

Our overall mean zonal compliance performance in the calendar year against the required standards

Leakage[2]

Cubic metres of water lost per kilometre of main per day

Service Incentive Mechanism (SIM)

A comparative measure of customer service introduced by Ofwat in 2010/11 It is made up of qualitative customer satisfaction and quantitative customer contact elements

Carbon footprint

CO_2 emissions equivalent in tonnes CO_2e

How this KPI relates to our strategy

A resilient and secure supply of safe drinking water is a top priority

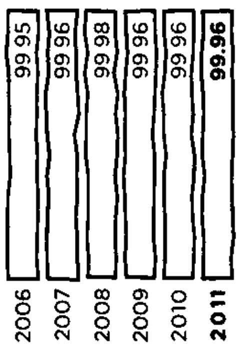
Managing water resources efficiently is a key business goal Our leakage rates are consistently almost half the industry average

Excellence in customer service is at the heart of everything we do SIM helps us understand how to continually improve our service

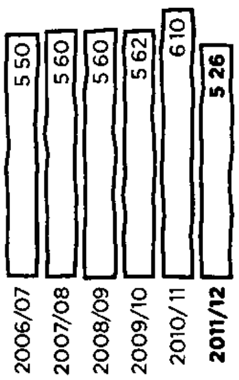
This key measure helps us
- Manage our environmental impact
- Deliver cost savings

Our performance

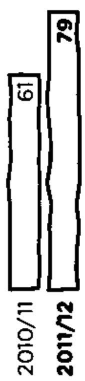
%



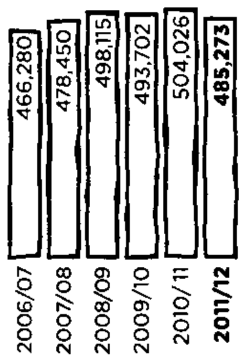
m³/km/day



Combined score



Tonnes CO_2e



Our 2011/12 performance in context

Our drinking water quality continues to be excellent

P47 to 49
Read more about water quality initiatives

Download our Drinking Water Quality Report at www.anglianwater.co uk/dwq

Industry average 2010/11

10.5 m³/km/day

This year we achieved our best ever performance on leakage to reflect our commitment to securing supply to our customers and protect our environment against potential drought Leakage is being maintained at these very low levels while the drought continues

P26
Read more

Our overall score has improved by 18 points from 2010/11 Our qualitative customer satisfaction score improved over the year, with us ranked first water and sewerage company in the fourth quarter and second for the year as a whole

P51
Read more about meeting the needs of our customers

Our longer term aspiration is a

50%

reduction in emissions by 2035 from a 2010 baseline We have already achieved a 10% reduction in this asset management period alone

P61
Read about how we have generated enough energy to power 11,500 homes this year.

P62 to 64
Read more about our carbon goals

Financial

Capital expenditure £m

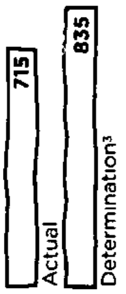
Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation

How this KPI relates to our strategy

Total investment delivered so far in this five-year asset management period

Our performance

Two years to March 2012 £m



Our 2011/12 performance in context

Delivering our regulatory outputs but with lower spend than assumed in Final Determination due to
- Higher efficiencies
- Reduced demand for new connections

P82
Read more about finance

Operating expenditure £m[4]

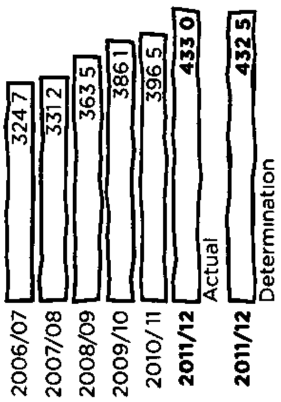
Operating costs (excluding depreciation and exceptional operating costs) incurred during the year

How this KPI relates to our strategy

The cost of running Anglian Water operations and achieving our objectives

Our performance

£m



Our 2011/12 performance in context

Up 9 2% on 2010/11, principally due to increases in rates, the new carbon emissions tax and the cost effect of adopting private sewers, as well as relatively high inflation Despite the additional costs of the Carbon Reduction Commitment and the private sewers transfer we remain broadly on Final Determination

Employees

Accident frequency rate

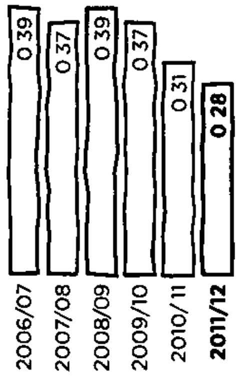
Number of accidents per 100,000 hours worked Data includes both direct employees and key contractors

How this KPI relates to our strategy

Indicates how safely we work

Our performance

Accidents per 100,000 hours worked



Our 2011/12 performance in context

Our certified health and safety systems are now effective throughout the company Our BS OHSAS 18001 certificated health and safety management system is embedded throughout the company We are particularly proud this year to have been commended by the Royal Society for the Prevention of Accidents for 'Excellence in Health and Safety in the Water Industry'

CHaSPI[5]

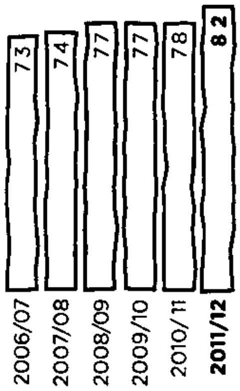
The Health and Safety Executive (HSE) corporate performance index Scored out of 10

How this KPI relates to our strategy

Aims to help assess how well an organisation manages health and safety risks and responsibilities towards its workers, the public and other stakeholders

Our performance

Scored out of 10



Our 2011/12 performance in context

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Read more about health and safety

Footnotes

1 Drinking water results published in 2012 for the 2011 calendar year measured as mean zonal compliance with the regulatory quality standards

2 Lost water from leaks in our network and our customers own pipes 2011/12 result subject to formal confirmation from Ofwat in autumn 2012

3 Final Determination Capex on a gross Pre-capital Incentive Scheme adjustment basis in 2011/12 prices

4 For the appointed and non-appointed businesses Final Determination adjusted to 2011/12 prices and for non-appointed business and pension deficit payments to ensure consistency

5 For more information see www hse gov uk or www chaspi info-exchange com

CHAIRMAN'S WELCOME

"At a time of considerable debate about the future shape of the water industry, and the regulatory framework in which it operates, the company has contributed ideas, expertise and experience to this important public policy discussion "

At a time of continuing economic uncertainty, and with customers being rightly demanding on the quality and cost of goods and services, companies around the world are having to adapt to the increasing scale and speed of social, environmental and economic change.

To succeed in this environment, companies must demonstrate active leadership and the ability to retain the confidence of customers, government and regulators alike This has been the solid achievement of Anglian Water during the year as the company has stayed true to its strategic vision, making significant progress against its ambitious business goals

At a time of considerable debate about the future shape of the water industry, and the regulatory framework in which it operates, the company has contributed ideas, expertise and experience to this important public policy discussion - always with a focus on the long-term interests of customers as well as on maintaining investor confidence

We continue to address a number of the big challenges facing the industry, most notably unpredictable weather patterns, the impacts of climate change and managing population growth in the region We have pursued a wide range of innovative campaigns and projects that have encouraged productive collaborative working with customers, regulators, stakeholders and other water companies, and have won recognition and respect Thanks to the leadership of Peter Simpson and his team the strong financial results and operational performance we have achieved demonstrate the underlying strength and capability of the company, and as such there is every reason to be confident about the future

Sir Adrian Montague CBE, Chairman

MANAGING DIRECTOR'S STATEMENT

Our challenge to the business at the start of this year was to drive excellence and ever-improving standards of customer service. It was also to demonstrate visible leadership through a period of significant challenge and change, while setting new standards for water stewardship in the 21st century.

We responded to this call to action in a year that has been dominated by the operational challenges brought by drought, and by a public policy environment that anticipates significant changes to the structure of the water industry and to the way it is regulated

So at such a time of challenge and change, I am particularly grateful for the hard work of our employees and contractors, and for the help and support of our customers Throughout, it has served to remind us all of the precious resource we manage and of the importance we must continue to place on its fundamental value to families, communities, businesses and the environment

Having experienced the driest 18 months in living memory, our priority has been to recognise the potential for a third dry winter We took an early lead in working with others to explore how best to secure supplies for the long term within our region and beyond This included government, the Environment Agency and other water companies as a result of which innovative schemes and collaborations were quickly identified and developed to move water to the driest, most vulnerable areas

In April 2012, in common with six other water companies in the south and south east of England, we introduced a temporary ban on the use of domestic hosepipes This was not a decision taken lightly, but was important in our drive to raise awareness about the severity of the drought and to encourage customers to reduce their water use

We also launched a number of high-profile water efficiency campaigns, and we are grateful to the Royal Horticultural Society who encouraged their members and to B&Q who worked with their customers to give these campaigns such splendid support

Recent rainfall has helped many of our surface water supplies to recover, with groundwater supplies also beginning to be recharged

"At such a time of challenge and change, I am particularly grateful for the hard work of our employees and contractors, and for the help and support of our customers "

We are acutely aware of our responsibility to lead by example, which is why additional resources have been targeted at finding and fixing leaks This has resulted in our lowest-ever level of leakage, ensuring that we continue to be an industry leader

Our financial results show a stable position in line with expectations Turnover for the year was up 4 2% on the previous year This primarily reflects the regulatory price increase partially offset by customers switching to metered supplies and thereby lowering their bills Underlying operating profit was up by approximately 1% reflecting the regulatory pricing formula and targeted efficiency savings of £10 million, partially offset by inflationary cost increases and new commitments We continue to perform strongly in both identifying and delivering efficiencies on our investment programme, outperforming our expectations in the first two years of the current regulatory period (2010/2015) Delivering this efficiency is key to enabling us to finance the schemes required to deal with the impact of drought

We take particular pride in recording more progress towards achieving our goal of 100% of customers very satisfied with our service Improvements have been recorded in customer satisfaction scores across water, wastewater and customer service, and given the many challenges we have faced during the year, the outcome is all the more impressive

In October, we became responsible for an estimated 31,200 kilometres of additional pipes, when ownership of private sewers and laterals was transferred by government from customers to wastewater companies Despite this approximate 70% increase in size of our sewer network, we successfully reorganised our wastewater team to manage this extra workload and took pride in seeing our service levels improve through our regular customer satisfaction qualitative survey

Other significant projects during the year included the transition of our IT service to a new supplier, which at the time was the biggest data centre transfer in Europe, and also the transition to a sustainable defined pension scheme for many of our employees

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

Throughout the year we have worked closely with government, regulators and others to influence the debate about the future structure of the industry, proposals for which were published in December in a government White Paper This, together with a regulatory review announced by our economic regulator Ofwat, has seen us fully engaged in this important public policy debate that will determine how we operate in the future

Love Every Drop, our innovative leadership programme, continues to transform the way we do business and has helped to further establish us as a leader in our industry

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

We welcome the new 'outcomes based' approach to regulation as this will better connect customers and stakeholders to the water industry and will make us even more responsive to customer needs and expectations

We look to the future with a good deal of confidence I remain proud and excited to be leading the company at such an important time for the future of Anglian Water and the wider industry, and to be part of the team that is determined to deliver even higher standards of service into the future

Peter Simpson, Managing Director, AWS

WHO WE ARE

Ownership and company structure

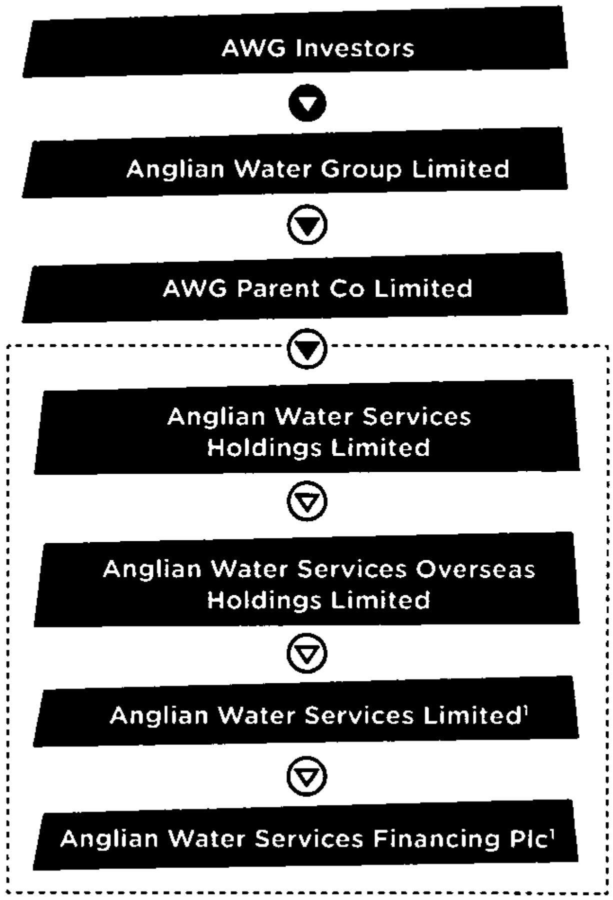
Anglian Water Services Limited (AWS) is the principal subsidiary of Anglian Water Group Limited (AWG) The AWG board consists of six investor representatives, the Anglian Water Services Managing Director, the Managing Director, Finance & Non-Regulated Business, and a Non-Executive Chairman

AWG is owned by a consortium of investors

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group	**The Canada Pension Plan (CPP) Investment Board is managed independently of the Canada Pension Plan by experienced investment professionals to help sustain the future pensions of 18 million Canadians Its role is to invest the C$161.6 billion CPP Fund to maximise returns without undue risk of loss**	**Industry Funds Management (IFM) is a global asset manager owned by 32 Australian pension funds, specialising in infrastructure, private equity, debt investments and listed equity**	**3i is an international investor focusing on private equity, infrastructure and debt management**
% ownership			
32 3%	32 9%	19 8%	15 0%
Origin			
Australia	**Canada**	**Australia**	**UK**
Assets[1]			
A$150 BILLION	C$161.6 BILLION	A$34 5 BILLION	£10 5 BILLION

[1] Assets under management at 31 March 2012

Anglian Water ownership structure



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

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

Leading Anglian Water

The Anglian Water Services Limited Board

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

Non-Executive Directors:
Christopher Garnett, Robert Napier CBE, 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 86 to 91 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

Management board members are:

Peter Simpson, Managing Director

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

Chris Boucher, Director of Information Services

Richard Boucher, Business Change and Strategy Director

Paul Gibbs, Director of Wastewater and Operational Management Centre (OMC)

Kate Kelly, HR Director

Chris Newsome, Director Asset Management

Martyn Oakley, Customer Services Director

Mark Pendlington, Director of Corporate Affairs

Claire Russell, Legal Director

Jean Spencer, Director of Regulation

Paul Valleley, Director of Water Services

P33
For how we finance our business

P82
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
  - Six local companies providing water and sewerage services
  - Seven water supply licensees offering water services to large use customers

Our investment 1990-2011

£10 BILLION[1]

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

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 £10 billion[1]

Read more online www.anglianwater.co uk

[1] In 2011/12 prices

Regulators and the regulatory environment

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

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

Ofwat regulates the 21 regional water companies in England and Wales Ofwat's priorities are to
- Make sure that all the companies provide customers with a good quality, efficient service at a fair price
- Monitor the companies' performance and take action to protect consumers' interests

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

More information on our charges for 2010/15 is available on our website at www anglianwater co uk

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

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

www ofwat.gov uk

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

www.dwi.gov.uk

See our Drinking Water Quality report at www anglianwater.co.uk/dwq

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

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

Ofwat review

The final report of the Department for Environment, Food and Rural Affairs' (Defra's) review of Ofwat and consumer representation was published in July 2011 Its main conclusion was that regulation has worked well in the water sector and major changes to the statutory and institutional framework are not required The report said that no changes to Ofwat's duties were required but that Ofwat should be given clearer guidance as to how it should balance them in reaching decisions It said that the burden imposed by Ofwat on companies should be reduced It also acknowledged that companies will take the lead in meeting future challenges and should be encouraged to do so with better incentives (more carrot, less stick), more freedom and flexibility and greater ownership of their business plans

On consumer representation, the report considered that the functions currently undertaken by the Consumer Council for Water should be preserved in any new institutional arrangements Its recommendation was for a continuation of the status quo

Future price limits

In November 2011 Ofwat published a consultation document, *Future Price Limits*, which considered a range of changes to the ways in which the industry is regulated in future The key proposals in the document were

- A move towards a more outcomes-focused approach, with outcomes being agreed through the customer engagement process
- Separate price caps to be set in future covering retail and wholesale activities (see 'The business environment competition in the water industry' on page 19)
- Expenditure will be treated under the total expenditure ('totex') approach to reduce companies' bias towards capital solutions
- All existing Regulatory Capital Value (RCV) will be allocated to wholesale, investors in retail will be remunerated through a margin-based approach
- Incentives will be adjusted to encourage water trading and efficient system operation
- Price control period remains five years
- Companies will submit only one business plan, and the type of assurance required is likely to move away from the detailed approach taken previously

***Future Price Limits* considers future changes to the way the industry is regulated.**

We supported many of the proposals brought forward in *Future Price Limits* and were active in shaping them We can see benefits for customers from approaches that give companies greater flexibility over their plans while strengthening the customer voice Our primary concern is that changes to the structure of the market are made in a way that maintains the continuing support of investors in the long term, which is essential to the future success of the industry and the maintenance of low bills to customers

P19
More on managing risk

Ofwat's proposals have been confirmed since the end of the year with the publication of *Future Price Limits - statement of principles* in May 2012 Much work remains to be done on the detail of implementation and we shall continue to work with Ofwat on this In autumn 2012 Ofwat will publish for consultation its draft framework for setting price limits at the 2014 price review

Ofwat has already introduced changes under the Regulatory Compliance banner of its reform programme From 2011/12 companies are no longer required to publish annual returns to the regulator Instead they will report against a set of Key Performance Indicators (KPIs) and company boards will publish statements to confirm their compliance with regulatory obligations Our KPIs and compliance statements are published on our website

Licence modifications
In December 2011 Ofwat proposed changes to all water companies' licences that would give the regulator much greater flexibility over the number, scope and duration of future price limits Ofwat declared that the modifications were necessary to enable any changes required to the price setting process, but the companies' universal view was that the wording of the modifications should be removed from the licence critical protections on which investors rely and which are essential to the maintenance of the low cost of capital in the industry Discussions about modifications were continuing at the year-end, with the prospect of the involvement of the Competition Commission if agreement cannot be reached

Legislative and public policy environment

The Water White Paper
In December 2011 the Government published its White Paper on the future of the water industry The themes of the White Paper were how to ensure the industry could meet the future challenges posed by climate change and population growth while supporting economic growth, ensuring bills remain affordable and maintaining investor confidence

Themes of the White Paper included how the water industry can meet the challenges of the future

Specific proposals included

- Reform of the water abstraction regime and other measures to reduce the environmental impacts of abstraction
- Support for approaches that reduce the need for water treatment by greater water management in catchment
- Various measures to encourage the development of the water retail market and encourage new players into the industry (see 'The business environment competition in the water industry')
- Greater encouragement for more efficient use of water and sustainable drainage
- Retention of the Consumer Council for Water to 2014
- Support to customers of South West Water through a £50 bill reduction
- Prospects for a looser approach to water company mergers

The Queen's Speech in May 2012 confirmed that the Government will publish a draft Water Bill We expect that the major focus of this draft Bill will be to implement the package of market reforms set out in the Water White Paper and enable Ofwat to regulate effectively as competition develops in the market We expect the draft Bill to be published before the 2012 summer recess

Transfer of private sewers

Following new government legislation, introduced on 1 October 2011, all private sewers and lateral drains were transferred to the ownership of the 10 water and sewerage companies in England and Wales As a result, Anglian Water became responsible for the maintenance of up to an estimated 31,200 kilometres of additional pipes, increasing our sewer network by approximately 70%

P29 and 35
Read more about the private sewer transfer

We worked to ensure that the transition was completed smoothly and efficiently, writing to all of our 6 3 million customers in advance to serve the adoption notice and explain the transfer process and the change in responsibilities We also took the opportunity to restructure our wastewater operational teams to meet the new challenges associated with the transferred assets

Since the transfer, we have experienced a steady increase in our workload, driven by greater customer understanding and awareness However, by allocating additional resources and putting external contracts in place, we've managed this increase in demand effectively and achieved improvements in levels of service and customer satisfaction

More on managing risk

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

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

In England, a reduction in the consumption threshold from 50 Ml to 5 Ml per annum for non-household customers wanting to switch supplier under the Water Supply Licensing regime came into force in December 2011 Accordingly, companies published indicative access prices for 5 Ml and 25 Ml in addition to the existing 50 Ml and 500 Ml Updated company access codes also incorporated use of a common operational code and contract for retail supplies

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

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

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

This project builds on the two projects we completed in 2010/11, *A Right to Water?* and *Trading Theory for Practice*.

To read or download our reports, go to 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.

In a rapidly changing world, we must constantly adapt to differences in economic, social and environmental circumstances Our business strategy allows us to be flexible enough to adapt to the increased expectations of customers and stakeholders, while delivering the highest possible levels of service For the long-term future, we are ambitious for ourselves and the communities we serve, and this drives us to lead the way in redefining what a 21st century water company might look like

At the heart of our long-term strategy is sustainability, and the priority we give to meeting, and where possible exceeding, the ambitious targets we set ourselves

Central to success will be to work with our customers and stakeholders to raise awareness about the value of water and to campaign for fundamental change in how we all engage with it and use it

FOCUS AREA FOR 2011/12

DROUGHT

Before the above-average rainfall, which kick-started a recovery in late spring, the east of England experienced 18 months of exceptionally low rainfall

P23

Customer service

Price Review

Anglian Water Business

Private sewer transfer

Love Every Drop

Leakage

Keep it Clear

Regulation

Bathing water quality

Healthy pension scheme

Biodiversity

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

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
- 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

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.

100% of our customers very satisfied with our service

No accidents

No pollution

No incidents

Get it right first time, every time. Zero waste

Frontier performer in our industry

Leading employer in our region

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

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

OUR FOCUS 2011/12: DROUGHT

Over the last 18 months the east of England has seen the lowest rainfall in living memory. Our rivers, reservoirs and groundwater levels have been badly affected, with some dropping to record low levels. Our top priority is to safeguard supplies for the long term.

We had two years of below-average rainfall, including two dry winters and the driest 18 months in a century Some parts of the Anglian Water region have officially been in a state of drought since July 2011, and we are facing the possibility of a third dry winter

With the pressure of a growing population, together with more unpredictable weather patterns and the impacts of climate change, we may need to operate in uncertain conditions like this more often in the future

Recent above average rainfall has kick-started a recovery, but not before we had to introduce our first hosepipe ban for 20 years Even though our reservoir levels have recovered, groundwater sources - the aquifers that we rely on for roughly half of all the water we supply - are still notably low in places

What we're doing to help

In anticipation of a third dry winter, we took action early in 2011 to try to mitigate the impacts of the drought, to prepare for it, and to protect our customers from the worst effects of it Significant investment was earmarked for drought response schemes, including bringing new boreholes on tap in Lincolnshire and Norfolk, increasing pump capacity to enable more water to be moved from Grafham to Pitsford, and fitting more water-saving devices to customers' homes

Drought Plan

We followed our Drought Plan, and applied early to the Environment Agency for two Drought Permits to enable us to top up Pitsford and Rutland reservoirs over the winter This helped slow the decline in reservoir levels, and highlighted the need for everyone to save water while we went through our second consecutive dry winter

In accordance with our Drought Plan we also convened our dedicated Drought Management Team The team has met regularly since June 2011, and has focused on solutions to beat the drought

DID YOU KNOW?

Collecting rainwater from your roof and downpipe in a water butt could save up to 5,000 litres of water over a typical spring and summer

We're attacking leaks

A key element of building and maintaining customer trust is evidence that we are tackling leakage That's why we redoubled our efforts and got leakage down to its lowest ever level We have about 300 staff finding and fixing leaks, working every day to fix around 27,000 leaks every year We spent £14 million targeting this work during the year, which included recruiting over 60 extra staff in December 2011 to boost resources

Everyone Drop 20!

We're helping our customers to save water wherever it is used Our target is to get everyone to use 20 litres less per person, per day - that's roughly two buckets full Billboard posters, radio adverts, bus-back promotions and door-to-door leaflets have encouraged everyone to join in and 'Drop 20' And to help customers save we've distributed more than 20,000 gardening packs and given away 5,000 water butts, in addition to almost 30,000 water efficiency audits carried out at customers' homes

Read more online:
www anglianwater co.uk/drought

Saving water makes a huge difference Working together to get into the habit of using water wisely now, will make all the difference tomorrow

Drop 20 is the region's biggest ever water-saving campaign. It's how we're working with our customers to beat the drought and safeguard supplies.

Interview with Simon Love, Head of Drought Response

Q. Is this the worst drought we have ever seen?

A. The flows in a number of the rivers that we rely on to refill our reservoirs were at similar levels as they were during the drought of 1975/76, this was previously the worst on record for our region The last occasion that we needed to impose hosepipe restrictions was over 20 years ago

Q. Are drought conditions here to stay?

A. We need to get used to more unpredictable weather We are in a dry region and normally only get two thirds of the national average rainfall Even by these standards the last 18 months have been very dry, in fact the driest on record We are constantly monitoring our water resource levels to safeguard supplies for everyone in the longer term

Q. How are you responding?

A. We are investing in a number of schemes to make us more resilient to drought - drilling new boreholes to improve security of supply and improving connectivity between supply zones On the water demand side we are continuing to invest in finding and fixing leaks, installing meters and providing water-saving devices to our customers

Q. How can customers help?

A. Customers have already given fantastic support During the drought demand for water dropped, while demand for our water-saving kits went through the roof! So please everyone, carry on being water efficient Join our campaigns and get involved

"Customers have already given fantastic support During the drought demand for water dropped, while demand for our water-saving kits went through the roof!"

More information can be found on.
www anglianwater co uk/drought

OTHER FOCUS AREAS FOR 2011/12

While drought response was a major focus in 2012, we continued to pursue other areas of strategic importance to the business, our customers and all our stakeholders.

Read more online:
www.anglianwater.co uk/environment

Water is vital in every aspect of life. Read about our planning, investment and progress in a number of key focus areas this year. The following pages include details of our main focus areas for 2012.

LEADERS IN
OUR FIELD

Customer service

Our customer service standards focus on providing safe, reliable and problem-free services to domestic and business customers As well as being a frontier performer in our industry, we aim to ensure that 100% of our customers are very satisfied with our service

Our day-to-day contact with customers is managed through our UK-based call centres in Huntingdon, Hartlepool and Lincoln Our back-office operations are managed 'offshore' in India and Sri Lanka, and this brings a significant benefit to our operational efficiency Other areas of focus include speeding up our response times to customer calls and complaints, in offering genuine help and support to our most vulnerable customers, and in working with our business customers who use large volumes of water to make the most efficient use of their supply and to save energy and costs

Last year Ofwat introduced a new industry-wide measure of customer satisfaction, the Service Incentive Mechanism (SIM) We support the principles behind this new approach to evaluating performance in our sector, and are proud that during the year we have continued to improve our score

Our regulatory target for 2011/12 was beaten by over 6%

We repaired 27,000 leaks during the year 2011/12

Compared to last year we saved 30 million litres per day through leakage reduction alone

LEAKAGE

This year, we beat our leakage target and achieved our lowest-ever level of leakage We invested £14 million and recruited over 60 extra staff to target this area In addition, and in accordance with our policy, we achieved a reduction in leak repair response time that specifies most leaks will be repaired within 48 hours An important part of our high-profile water efficiency campaigns throughout the year has been to help customers find and fix leaks on their property This accounts for almost 20% of leaks in the system, many of which can be detected and stopped quickly, cheaply and effectively Overall our water efficiency campaigns have delivered an estimated water saving of 1 5 million litres every day (2010/11 500,000 litres) and we have saved 30 million litres a day on leakage reduction

The outcome of the intensive leakage campaign is a reduction in demand, one measure of which is that we now abstract 29 million litres less water per day

Our campaign for the future, Love Every Drop, is now in its second year and continues to gain momentum. It brings to life the ambitious business goals that underpin our business strategy, and seeks to inspire employees, customers, suppliers, business partners, regulators, community leaders and many others to work with us in driving behavioural change.

Through this industry-leading campaign, Love Every Drop continues to put sustainability at the heart of everything we do Our business goals are underpinned by over 100 commitments, each of which is independently evaluated and measured to track progress

The campaign is now firmly embedded into the everyday running of the business, with directors having full accountability for delivery against targets Everyone in the business has a part to play, and every employee, whatever their role or work location, is encouraged to get involved in our Love Every Drop campaigns, projects or community activities

Love Every Drop is our long-term campaign to fundamentally change the relationship we all have with water

The management board regularly monitors and reviews progress, and our proactive customer and stakeholder engagement programme provides regular opportunities for involvement and feedback

Love Every Drop is benchmarked against best practice within other leading customer service businesses, which provides the opportunity to listen as well as learn, and where possible to improve our own levels of service

Through Love Every Drop, our 10 business goals are underpinned by over 100 commitments, targets and measures.

Price Review

We have started to review our long-term business strategy and prepare our business plan for 2015 to 2020 This plan will be submitted to Ofwat in 2014 as part of the five-yearly price review process setting out how we will continue to invest in our world-class water and wastewater operations

With water so central to the sustainability of the economy, society and the environment the next few years are among the most important for the industry - and for our millions of customers

Building on our existing customer and stakeholder engagement, we'll be engaging widely to ensure our customers are at the heart of the price-setting process influencing where we invest, how quickly service improvements are made and what this means for customers' bills

As well as speaking to customers and stakeholders through a range of methods such as interviews, focus groups and workshops, we've set up a Customer Engagement Forum supported by four Independent Advisory Panels These are all independently chaired and will advise us throughout the price-setting process to ensure that our business plan reflects our customers' views and that the outcomes are delivered in the most socially, economically and environmentally sustainable way

Anglian Water Business

In December 2011 the Government's Water White Paper proposed greater competition in the non-domestic market To prepare for this change in the industry, and to reflect our renewed focus on providing a leading and professional service to business customers, in November 2011 we launched Anglian Water Business as the national retail arm of Anglian Water

A range of new services, including benchmarking and tariff optimisation, were introduced ahead of the launch to help us serve our national customers as efficiently as possible Services to promote sustainable water use, such as water strategy development and the Rippleffect, were also launched in line with our Love Every Drop commitments

Many businesses in the region are trying to reduce water usage, and organisations that have already benefited from our new services include Greene King, Weetabix and Bedford Borough Council

Keep it Clear

Our industry-leading Keep it Clear campaign demonstrates that consumer behaviour change really is possible We experience around 15,000 blockages a year, which have the potential to flood homes and neighbourhoods, cause serious environmental risks and impact customer bills

More than half of these blockages are avoidable and don't require any technological solution - the answer lies in raising awareness and putting in place interventions that make it easy for people at home or at work to change their behaviour around waste disposal

In June 2011, we piloted the innovative Keep it Clear campaign in Peterborough, subsequently rolling it out to six further hotspot blockage areas across the region Detailed research on behaviour and product use identified two causes of blockages - sanitary products and wipes, and fats, oils and grease (FOG) Our campaign was such a success in highlighting how to dispose of these items correctly that we won the FOG reduction category at the Water Industry Achievement Awards in March 2012

Evaluation of results in the Peterborough pilot area shows over 80% reduction in blockages, with an average 40% reduction across all areas targeted

Later in the year, we will be implementing the second phase of the Keep it Clear campaign, which will be driven by local community groups and is designed to sustain positive behaviour

Private sewer transfer

Following government legislation, all private sewers and lateral drains in our region were transferred to our ownership on 1 October 2011 Anglian Water therefore became responsible for the maintenance of up to an estimated 31,200 kilometres of additional pipes, equating to a 70% increase in our sewer network In addition, over the coming years we will adopt upwards of 3,000 privately owned pumping stations

We worked to ensure that the transition was completed smoothly and efficiently, writing to all affected customers in advance to serve the adoption notice and to explain the transfer process and the change in responsibilities We also took the opportunity to restructure our wastewater operational teams to meet the new challenges associated with the transferred assets Despite a steady increase in our workload, we've managed this increase in demand effectively and achieved improvements in levels of service and customer satisfaction

Regulation

A principal focus for us has been to consider proposed changes to the future structure of our industry and the role of Ofwat, our economic regulator

In November 2011, Ofwat released a consultation document, *Future Price Limits*, which outlined a range of issues including how customers can have a greater role in shaping companies' plans, and the introduction of incentives to ensure they continue to meet customers' needs innovatively And the following month, the Government published a White Paper detailing its own plans for the water industry The Paper considers how to ensure the industry meets the future challenges posed by climate change and population growth while supporting economic growth, ensuring bills remain affordable and maintaining investor confidence

While we support many of these proposals, and can see considerable benefits for customers, we have also expressed concerns about the proposed scale and pace of change, and advocate a detailed timetable to ensure that the process is implemented in a measured and smooth way

Throughout the year we have worked closely with government, regulators and others to influence the debate about the future structure of the industry This, together with a regulatory review announced by Ofwat, has seen us fully engaged in this important public policy debate

We anticipated the introduction of competition into the retail market for business customers - another key component of the White Paper - by restructuring our business customer services operation This built on our existing successful operation in the Scottish market Anglian Water Business was successfully launched in November 2011 and has been established to further enhance our credentials as a national commercial supplier

Biodiversity

Improving the environment and protecting biodiversity in the east of England are central to our water stewardship strategy and Biodiversity Action Plan (BAP) By 2015, we will have invested £267 million to help improve the environment and increase protection for plants, animals and habitats in our region Our two main goals are to achieve zero pollution and to manage the impact of growth and climate change effectively To achieve these, we will 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 Biodiversity Action Plan (BAP) is a long-term strategy for the management of biodiversity on land we own The plan, which runs until 2020, defines the 16 habitat types we've identified on our sites and aims to increase the numbers of 60 priority species of birds, mammals, plants and insects

Bathing water quality

There were 48 designated bathing water sites in our region in 2011 For the 11th consecutive year all our bathing waters met the mandatory standards of the Bathing Water Regulation In addition 41 (85 4%) bathing waters also met the higher guideline standard of water quality - our best ever result

Guideline compliance is one of the 32 requirements a beach must meet to be eligible for the prestigious Blue Flag award, this year 17 beaches gained Blue Flag status An application for Blue Flag status represents a considerable financial outlay and they are applied for at the discretion of the individual local authorities

41 beaches were awarded 'Recommended' status in the Marine Conservation Society's 'Good Beach Guide' representing highest water standards and good treatment of any continuous sewage discharges

In 2012 a legal requirement will be introduced requiring any individual or organisation that looks after a beach to inform beach users if there is a risk of pollution to bathing water We established a trial project covering two beaches in Southwold, Suffolk, to provide the beach manager with up-to-date information about risks to bathing water quality from discharges from our assets

Results continue to be evaluated with potential being explored for use in other coastal areas

Healthy pension scheme

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

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

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

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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 Monitoring 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

FINANCING OUR BUSINESS

More information on our financing P84

Description

We need to fund a £2 3 billion[1] capital programme in AMP5 and have gross debt of £5 6 billion to manage and service It's critical that we have robust financing arrangements in place

[1] Gross sums assumed by Ofwat (in 2007/08 prices) before deducting grants and contributions

Mitigation

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

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

FLOODING OF KEY SITES

More information on resilience P50

Description

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

Mitigation

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

REGIONAL GROWTH

More information P65

Description

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

Mitigation

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

ENERGY MANAGEMENT

More information P60 to 64

Description

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

Mitigation

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

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CLIMATE CHANGE

More information P58

Description

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

Mitigation

The recent drought has presented us with a number of challenges, with the lack of groundwater recharge and low river flows reducing our ability to fill reservoirs In response, we have been working to improve the flexibility of our supply networks and therefore mitigate the effects of the drought as much as possible Climate change projections suggest that, despite having drier summers in the future, we will also have wetter winters, and this will enable us to capture and store water during the winter months and maintain a steady supply all year round In addition, we continue to contribute to adaptation plans for our industry, and our long-term investment plans reflect the predicted impacts of climate change in our region Meeting our ambitious goals of reducing carbon emissions across the business is also a key priority

BAD DEBT

More information P54

Description

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

Mitigation

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

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

WATER SECTOR REFORM

More information P17

Description

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

Mitigation

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

COMPLIANCE WITH LEGISLATION

Our Directors' report is on P88

Description

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

Mitigation

Our key operational processes have been certified to meet the requirements of applicable quality standards (including ISO 9001) Most of these standards require that our processes and systems are designed to comply with the relevant legislation In addition, our legal department works closely with the business to ensure compliance with legislation generally, and the Legal Director sits on the Risk and Compliance Monitoring Committee, which meets on a quarterly basis In the course of the year, we commissioned internal audits of our programmes for complying with the requirements of the Bribery Act and the Competition Act These audits confirmed the robustness of these compliance programmes

PRIVATE SEWERS

More information P18 and 29

Description

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

Mitigation

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

EFFICIENCY DELIVERY

More information P56

Description

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

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

Mitigation

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

DELIVERING OUR 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 priorities in 2011/12

SECURING AND CONSERVING WATER RESOURCES

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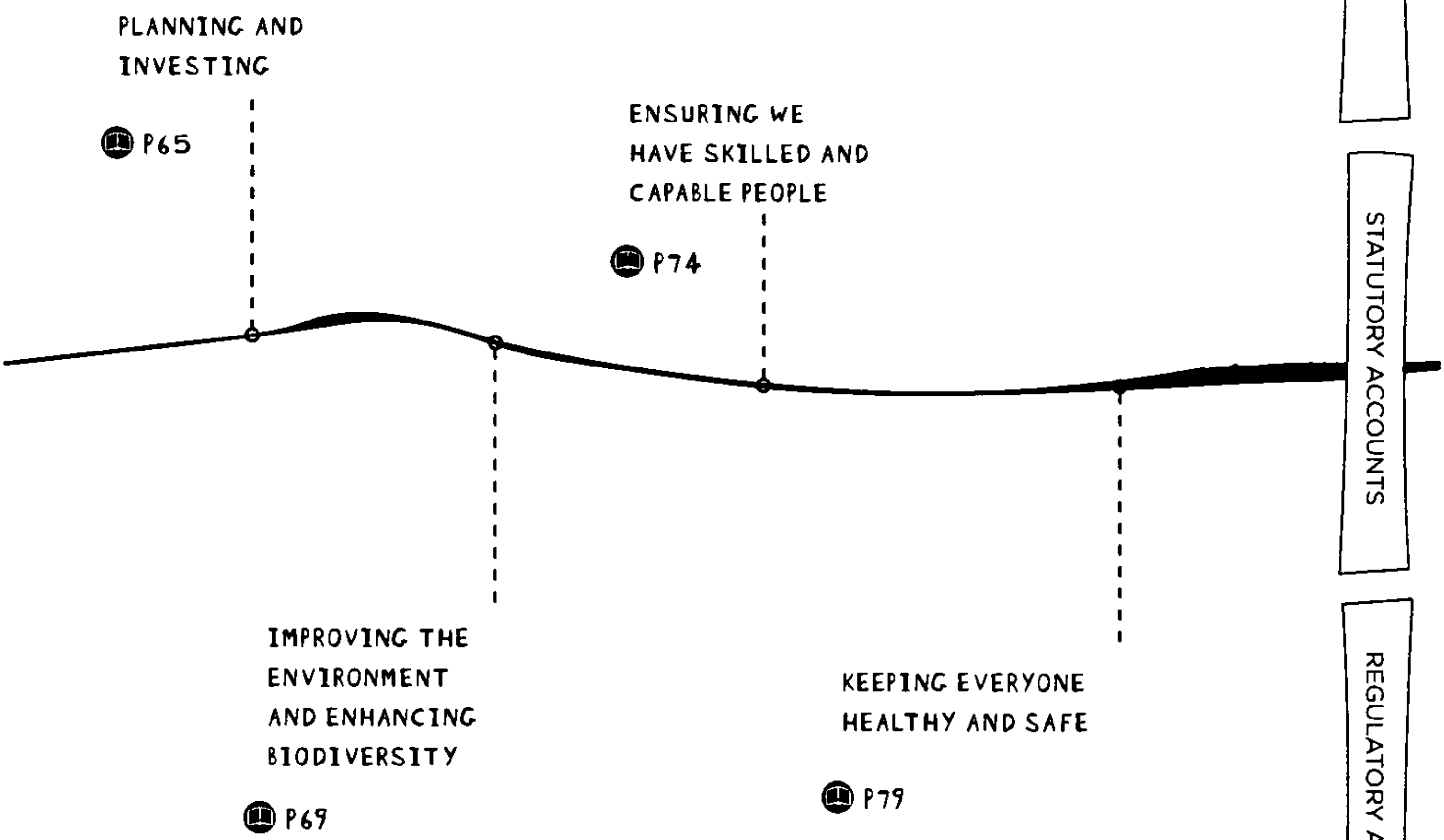
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A successful second year of AMP5

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Read more about our Strategic Direction Statement

In the first two years of the current Asset Management Plan period (2010/15) - AMP5 - we have continued to build on the high levels of performance that saw us consistently ranked a leading performer in the water and wastewater industry in AMP4 (2005/10)

During this second year of the AMP our operations have been challenged by extremes of weather The successful recovery from the severe winter of 2011 was quickly followed by a progressively worsening environmental and groundwater drought that began in spring 2011 - the worst to impact the region in living memory While recent rainfall has helped to replenish surface water storage, groundwater levels in some areas remain low

Our combination of forward-planning and investment in innovation and skills meant we delivered high and improving levels of service throughout the year Most importantly, we overcame the considerable challenges of the drought to ensure continuity of service to customers The Environment Agency granted two drought permits, which allowed us to abstract more water through the winter into our Pitsford and Rutland reservoirs We are now looking ahead to a potential third dry winter and to the measures required to safeguard supplies in the longer term Investment of up to £100 million is being made to implement schemes that will transfer water within the region to help the most vulnerable areas, and in water-sharing initiatives with other water companies

Across the five-year AMP period, we plan to invest £2 3 billion[1] in our region We continue to work successfully with our major Capital Delivery partners Our focus this year has been on ensuring the on-time delivery of schemes meeting agreed quality standards and with significantly lower whole-life costs and carbon footprints

[1]Gross sums assumed by Ofwat (in 2007/08 prices) before deducting grants and contributions

INVESTING £2.3 BILLION[1] 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

£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

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

SECURING AND CONSERVING WATER RESOURCES

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

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

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

Throughout the exceptionally dry year, we maintained water supplies to our domestic and industrial customers Our industry-leading approach to reducing leakage and to driving down demand by increased metering and enhanced water efficiency campaigns, has enabled us to maintain an effective balance between supply and demand Our water efficiency campaigns have delivered an estimated water saving of 1 5 million litres every day (compared to 500,000 litres per day in 2010/11)[1]

[1] In 2011/12 we carried out 28,758 water efficiency audits fitting 97 920 water efficiency devices, generating a combined water saving of 1 52 ml/d calculated using a formula recognised by Ofwat

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

Recent above average rainfall has helped replenish some supplies, particularly reservoir storage However, with groundwater levels still very low in some places across the region, the focus on conservation of supplies remains a top priority

Following successful trials to reduce leak repair times in Northamptonshire, our worst area affected by low winter rainfall, we will be extending this service to the whole region in 2012/13 The aim is to fix all major leaks within 48 hours and all other leaks within three days, with many being repaired in less than 24 hours This is a significant investment and a commitment that we feel is entirely appropriate given the need to safeguard long-term supplies

This new service will also ensure that we maintain our industry-leading leakage performance at half the industry average and further improve our SIM customer service measure

Reducing leakage and improving service to customers

At around half the national average, our leakage level is the lowest ever recorded, making Anglian Water an industry leader for 2011/12

Detecting and repairing leaks quickly is a priority for us. We are committed to fixing all major leaks within 48 hours

Credit Vauxhall

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We remain focused on significantly improving our leakage performance over and above regulatory targets and to date our measures have resulted in 29 million litres per day less water being abstracted from the environment compared to 2010/11 We have almost doubled our investment to £14 million in an intensive leakage reduction campaign

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Read more about leakage management

Detection and repair are among our key priorities and at the beginning of the winter we recruited 60 extra staff, adding to our team of 140 who are focused on finding and fixing leaks every day, also enabling us to reduce our target for leak repair

Although we experienced more severe weather during February 2012, we continued to improve our service levels, cutting target response times by over half The enhanced service levels have been made permanent, dealing with burst mains in three days and service pipe leaks in five Further improvements are being trialled too with a goal to repair most leaks within 48 hours

The additional investment in leakage control enabled us to repair almost 60% more leaks than normal We continue to promote our dedicated leakage hotline for thousands of our employees and contractors, who are our front-line team working across the region We also continue to promote our customers' leakage hotline to encourage them to report leaks and bursts on our network

Thousands of customers also contacted us requesting help with leaks in their own supply pipes Our call centres, supported by our website service and our media team, offered advice on protecting household pipes from the severe weather and directed customers to the list of approved plumbers For customers' private pipes outside their homes, we continue to offer our Watertight Promise of free repairs/ replacement service for domestic customers

We will continue to develop and implement our pioneering approach to leakage control, ensuring we remain an industry leader With a similar level of investment planned for the coming year, we are determined to reduce leakage levels even further, demonstrating our commitment to safeguarding supplies and to protecting the environment

Security of supply

Several schemes to increase the availability of water resources have progressed in the second year of the AMP A scheme to secure resources to meet demand in Lincoln is at the final stages of planning, and a scheme to secure additional resource for the Bedford supply area will be operational in the early part of next year The combined capacity of these schemes is approximately 45 million litres per day Schemes to secure water resources for industrial customers on the South Humber Bank and domestic customers in Boston and Norfolk rural zones are on target for delivery by 2015

We committed an additional £20 million investment to improve the security of the water resource during the drought Three groundwater schemes - at Winterton Holmes in Lincolnshire and Didlington and West Bradenham in Norfolk - were substantially complete at year end and significant progress was made in the delivery of a high-capacity scheme, which allows for water to be transferred between Grafham Water and the Pitsford supply zone

Our campaigns

The east of England has seen a 20% growth in population since 1990 yet we still supply the same amount of water as we did then This is because of our continuing commitment to resource management and to water conservation The number of new homes in our region is forecast to reach one million by 2035 and the east of England's particular vulnerability to the impacts of climate change, as well as to more short-term changes in weather patterns, will continue to highlight the priority we must place on water efficiency and saving water

We consider metering to be the fairest way to pay for water consumption Metered customers consume a daily average of 135 litres per person, many saving up to £100 per year, excluding energy costs This compares to average unmeasured consumption of 165 litres per person

Over 70% of households in the Anglian Water region are now metered, which makes us a leader among major water companies Our target is for 80% of domestic customers to be metered by 2015

Our website offers a wide range of services to help our customers save water We offer free do-it-yourself water-saving kits for the home for all our customers, and for those who live in the driest areas of the region our Bits and Bobs campaign offers a free retrofit service of water efficiency devices by a qualified plumber

Over 70% of our domestic customers have a water meter Our target is 80% by 2015

Read more online:
www anglianwater.co uk/payasyouflow

While on site the plumber will also conduct a water audit and offer tips and advice on improving water efficiency and saving money In 2012, we launched *Potting Shed* - a new initiative to help customers conserve water in the garden In association with the Royal Horticultural Society this offers customers a garden water-saving kit together with help and advice on how to maintain a garden, especially during dry conditions

Our successful Potting Shed campaign was developed in association with the Royal Horticultural Society (RHS). Customers sign up to receive hints and tips on water efficiency in the garden and receive a free water-wise garden pack.

Switch and Save

We are on target to fit over one million meters by 2015

In our most water-stressed areas, we are fitting meters and providing customers with a comparison between their measured and unmeasured bills to encourage them to switch to a metered supply Under this programme, we will fit 183,000 meters in these particularly dry areas by the end of 2015, contributing to our target of 80% of households in the Anglian Water region being fitted with meters

Following the success of our Potting Shed initiative we are teaming up with B&Q, the UK's largest home improvement garden retailer, to encourage water efficiency both in the garden and the home

We are trialling leading 'smart' technology to help our customers monitor their consumption We are developing a small display unit that links to our smart meters and helps customers understand how they use water in their daily lives These trials are an important component of our behavioural change programme and help inform us about how best to develop technology to engage customers in conserving water

Bits and Bobs - saving up to 47 litres a day

We are currently ahead of target in our five-year programme to retro-fit water-saving devices to over 87,000 properties Two years into the five-year programme, we have visited over 38,000 customers' homes fitting our **Bits and Bobs** to make toilets, showers and hand basins operate more efficiently On average, our customers are saving over 47 litres per household a day in addition to the associated saving in energy costs required to heat water

Our free Bits and Bobs water-saving kits not only save water but can help cut energy bills too

Working with our business customers

The Water White Paper, published in December 2011, confirmed the introduction of competition into the retail market for business customers Building on our practical experience of the water retail market in Scotland, in November we restructured our business customer services operation by establishing Anglian Water Business This will further enhance our credentials as a national commercial supplier

We are committed to working with businesses to help them use less water and to delivering cost and sustainability benefits Our recent work with Greene King demonstrates this - see opposite for details

We have developed a number of services to support business customers to become more water efficient The water strategy development service has proved popular and effective, particularly during drought conditions

Discussions are under way with a number of business customers to advise them on developing a formal water strategy One such customer is Bedford Borough Council, which has recently committed to reducing water consumption and wastewater in council buildings by 20% by 2015 (from a 2009/10 baseline) This commitment was ratified by the Mayor in a public ceremony in March

We are also promoting engagement campaigns for our customers' customers and employees to prompt positive behavioural change For example, in April 2012, we organised a water efficiency day at Searles Leisure Resort in Hunstanton This successfully engaged thousands of visitors on issues related to water resources and water efficiency

In partnership with *Guardian Sustainable Business* and involving a number of leading UK companies and organisations, a national water conference is being hosted by Anglian Water Business that will look at innovative approaches to company water strategies Themed The Global Water Challenge, the conference will highlight the strategic importance of sustainability and water stewardship to businesses and supply chains across a wide range of sectors Participants will be invited to make solid commitments towards improving water strategies

Case study: Helping Greene King go greener

Greene King is a pub retailer and brewer operating over 2,400 pubs, restaurants and hotels, including over 90 in the Anglian Water region The company set a target to reduce their water consumption and came to Anglian Water Business for help

We outlined a tariff optimisation and benchmarking programme to review water use and rates at their sites An important management tool for businesses operating from multiple premises, benchmarking helps to set realistic and achievable targets on water consumption, and to drive continual efficiency improvements Comparing performance with similar sites in an organisation or against industry standards reveals wasteful sites and opportunities to make savings

We found out-of-hours water consumption at several sites was costing the company over £11,000 a year, representing 16% of their total water use at these locations for the previous year We helped reduce this total by conducting water efficiency audits, finding and fixing leaks, and, most significantly, working with Greene King to drive behavioural change at the sites to minimise non-necessary water use that was going unchecked

Tariff optimisation is another service designed particularly for companies that operate a number of sites It ensures the best value for money is achieved across each site in our supply area By identifying areas where tariffs could be switched, we achieved a saving of over £12,500 a year for Greene King

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 Maintaining a stable serviceability assessment, for both above and below ground water and wastewater assets, was a priority during AMP4 and continues to be a high priority for us in AMP5

We have continued to increase our spending on our water mains and wastewater sewers in 2011/12 to a total of £45 million.

The need to respond to the escalating drought situation has informed our planning in the last year and a number of large- and medium-scale schemes are being introduced to address water resource issues in key locations We are balancing the need to address the drought situation with the need to maintain serviceability performance, in some cases these can be in conflict An example of this is the drive to reduce leakage levels, as our successes in the last year in locating and repairing increased numbers of burst mains are having a detrimental effect on our serviceability performance, which has to be carefully managed with Ofwat

We plan to replace around 600 kilometres of water mains pipes during the current AMP period, targeting our efforts to those areas with higher than normal serviceability-related incidents by replacing ageing mains with newer and more reliable polyethylene pipe In the current drought, this important work will continue, although all mains commissioning activity will be managed carefully to minimise the use of water

Expenditure on infrastructure directly affects levels of customer satisfaction For example, since 2005 we've significantly reduced the number of customers contacting us about discoloured water supply and this year complaints fell to the lowest levels ever recorded Although this improvement has been driven through targeted planned preventative maintenance, we are now risk-assessing every location to understand if this maintenance can be deferred because of the drought While we must respond to the impact of drought and reduce the amount of water used for asset maintenance flushing, we must also find the right balance to maintain the highest levels of water quality

INCREASING THE RESILIENCE AND RELIABILITY OF OUR WATER AND WASTEWATER SERVICES

Providing 1.1 billion litres of safe, clean drinking water to our customers every day makes a vital contribution to the public health of our region.

Safeguarding water quality and supply

The drinking water quality regulator - the Drinking Water Inspectorate (DWI), the water industry economic 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

Water quality

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

Our record on drinking water quality standards remained excellent in 2011, with overall compliance of 99.96% (2010: 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

As part of our five-year, £123 million[1] programme of investment in drinking water quality, we are investing in proactive catchment management as well as increasing the capabilities at our water treatment works During 2011, we completed a new blending scheme at our Tuddenham water treatment works in Ipswich to reduce the level of naturally occurring selenium present in the groundwater

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

Safeguarding public health - leading on lead reduction
During this year we have continued to roll out our 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

We have completed installation of 22 new phosphate dosing processes across our region to reduce the amount of lead that is dissolved in water when it passes through lead pipes within older properties

We're also spending over £15 million to replace lead pipes, working in partnership with housing associations, local authorities and householders to help raise awareness and encourage replacement of their lead pipework 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

See our Drinking Water Quality report at www.anglianwater.co.uk/dwq

Catchment management is a key component of our five-year 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 our 13 surface water catchments

[1]Gross sums assumed by Ofwat (in 2007/08 prices) before deducting grants and contributions

As part of one initiative in Ipswich, we're adding value to their housing refurbishment programme by replacing lead 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 pipework in their homes

Telephone our lead helpline
0845 070 3445

Investing for a reliable supply

We have recently started work on three major schemes in Lincolnshire to ensure reliable supplies into the future

A new innovative, £44 million water treatment works is being constructed close to the River Trent at Newton The project combines facilities for the abstraction, storage and treatment of up to 20 million litres of drinking water every day It will eventually serve customers in the Lincoln area

We are also constructing a £40 million pipeline to transfer drinking water south from Covenham to meet increased demands arising from growth in the Boston area Care has been taken to locate this pipeline, taking into account wildlife habitats and archaeological sites along the route

The existing water treatment works at Elsham is being expanded to provide an additional 15 million litres of water every day to industrial customers on the South Humber bank At the same time the existing treatment works is being upgraded to improve reliability and performance

The 60 kilometre pipeline from Covenham reservoir to Boston in Lincolnshire will improve the security of supply for more than 100,000 people

Case study: Keep it Clear - reducing the number of sewer blockages

We invest significantly in preventing and repairing sewer blockages But this alone is not enough - we are also working with customers to change behaviours Previous approaches have focused on telling customers about the problem of fats, oils and grease (FOG) in sewers and expecting them to change their behaviours But in reality, this does not work - we are all individuals with different beliefs, constraints and habits

So we researched the barriers that stop customers from implementing good practice and identified the benefits that would encourage different behaviour We then explained the simple things customers could do to make a difference In addition, because people are more likely to change behaviours and sustain that behaviour if the message is coming from a person they know and trust, we identified and informed community leaders who worked with us to support our campaign

This pioneering approach reduced blockages in the Peterborough pilot area by over 80% compared to the start of the year All planned preventative maintenance of the sewers in the targeted streets was stopped during the pilot so that a true reflection of the impact of behavioural change could be measured Pre- and post-pilot surveys show how awareness and willingness to act to reduce blockages has increased

- 92% say we all share responsibility for reducing pipe blockages, up 40%
- 100% of household customers are concerned about pipe blockages, up 31%

We are continuing to work with community groups and organisations to establish sustained behaviour change As the campaign extends to other areas of the region, we are already recording a significant reduction in blockages

Safeguarding our assets

Business continuity

In 2009/10, we achieved the standard of BS25999-2 2007 specification for Business Continuity Management Two years on from our initial certification, Lloyds Register Quality Assurance (LRQA) has confirmed through ongoing six-monthly assessments that there is clear evidence of management system development and continuous improvement

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

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

OUR GOAL Frontier performer in our industry

Throughout the year, we have made further progress towards our goal of 100% of our customers very satisfied with our service.

Constantly improving results from Ofwat's quarterly Service Incentive Mechanism (SIM) qualitative satisfaction survey confirm this

We ended the year second in the customer qualitative satisfaction survey of water and sewerage companies, having topped the table in the Q4 survey We await the full Ofwat SIM combined scores, encompassing the qualitative customer satisfaction surveys and various quantitative customer contact data, which should be published later in the year

Our service to commercial customers was improved further based upon customer feedback This has left Anglian Water Business in a strong position to take advantage of the imminent introduction of business retail competition, at a national level

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

We remain committed to excellent customer service delivered through dedicated UK-based call centres, while off-shoring back-office operations has proved successful and 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 an independent third-party company, which conducts 200 surveys for each water company on a quarterly basis Customers are asked about their whole experience with us, from initial contact to how well we tidied up the site on completion of a job The customer is then asked to rate how satisfied they are overall The responses are evaluated for the industry-wide company comparison

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

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

Speeding up our response times

During the year, we have made further significant progress in improving our levels of service and in the time it takes to respond to customer calls

Following the initial announcement of the hosepipe ban in March 2012 (before introduction in April), there was an immediate increase in the number of customers contacting us by telephone and email To ensure that all our customers continued to receive a speedy and efficient response to their enquiries, we allocated extra staff to help manage the increased workload

Putting 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 Our dedicated customer relations team is committed to solving problems and to reaching a speedy and fair resolution for customers

During the year, we further improved the number of complaints we were able to resolve on first contact from customers, achieving over 97% Also, we saw a reduction in the number of written complaints not resolved on first contact, down to 1,080, from 1,908 in 2010/11

Increasingly, we prefer to talk personally to customers as we find this helps to resolve complaints more effectively The number of these calls increased from 25% in 2010/11 to 40% in 2011/12 We also invite feedback from those customers who tell us that they are satisfied with our service, asking them what it is they like and value about our company Taken together, feedback from all our customers helps us to continually improve our service and to make further progress towards our goal of 100% of our customers very satisfied with our service

We remain committed to our UK-based call 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 and now in Sri Lanka deal with back-office customer correspondence and account maintenance and continue to deliver exceptional quality

Karen Winfield has been at Anglian Water for 12 years and heads up our Voice of the Customer team.

" The team surveys customers who have had contact with us or work carried out by us, or who have complained about the level of service they received Our objective is to find out where we can improve the service we provide and shape our service for the future We speak to about 800 customers a week "

Karen Winfield
Head of the Voice of the Customer team

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Tariffs and affordability

In current economic conditions, we understand the pressures on many family budgets Affordability and bad debt are sensitive issues and we continue to advocate an extension of options on tariffs Our proposals on tariffs have been presented to Ofwat and would offer significant assistance for our most vulnerable customers and would help reduce bad debt We hope for a positive response

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

Bad debt continues to be a challenge, and to keep to a minimum the burden this places on paying customers, we monitor progress on our debt recovery operation each week For more detail on how we approach this issue, including with our more vulnerable customers, see page 34

The Anglian Water Assistance Fund offers help to those experiencing genuine hardship (see page 143)

For details of how we are meeting the needs of our business customers, see page 44

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Read more about improving efficiency and flexibility

Water for health, leisure and recreation

Our eight water parks are among the best leisure facilities in the country For many in the region, it's their 'big back garden' so we're doing all we can to encourage everyone to enjoy the extensive range of facilities available

Drought conditions can affect recreational water use for activities such as fishing, so our procedures trigger Low Water Level risk assessments when reservoirs go below 70% full Risk assessments have been triggered at Ravensthorpe, Hollowell, Pitsford and Rutland Water reservoirs (although the water level has recently recovered to above 70% at all of these reservoirs), resulting in some restrictions to bank-side fishing Boat fishing will continue as normal at both Ravensthorpe and Pitsford for the time being but is subject to regular review and risk assessment

We have been proactively informing customers purchasing fishing season tickets that these reservoirs remain vulnerable to extremely dry conditions Customer reaction has been understanding and positive

Throughout 2012, and for recurring events, we will alert event providers to the long-term risk of dry conditions and begin planning with them to ensure loss and impact of cancellation is minimised should the situation deteriorate and impact more significantly in 2013

Visit our leisure and recreation pages.
www.anglianwater co uk/leisure

At the beginning of May 2012, Managing Director Peter Simpson opened our new interactive visitor centre at Rutland Water. This £120,000 investment to update the centre and add a mini-golf course enhances Rutland Water as a great family day out

IMPROVING OUR EFFICIENCY AND FLEXIBILITY

To improve service to customers we continually review ways of reducing cost, improving our efficiency and increasing our flexibility.

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

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

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

This year, we delivered a further £10 million of efficiency savings

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Read more about cutting costs by cutting carbon

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

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Read more on energy management

Robust capital delivery planning

Our rigorous capital common delivery process is a key AMP5 initiative The front-end focus on definition, optimisation and integration, and design approaches that minimise both embodied and operational carbon is delivering excellent results For example, some of our wastewater treatment works are in the process of being expanded by up to 20% in response to growing demand However, as a result of the innovative design solutions we are implementing, they are predicted to cost us less to run per year, once completed, than they did prior to expansion

Collaborative working

In 2011/12, we held regular supplier events aimed at establishing better working relationships across our supply network, helping teams to work together to better understand and achieve our goals In particular, we have taken the lead to ensure that our partners and suppliers share our commitment to low whole-life cost solutions, which minimise embodied and operational carbon footprints, and, above all, meet our stringent health and safety procedures

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Read more about our carbon goals

Our @oneAlliance partners

MEETING THE CHALLENGE OF CLIMATE CHANGE

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

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

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
- Building adaptive capacity in our policies and procedures

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

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

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

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, the 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 Cambridge University 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 makes clear the link between water, energy use and the potential for significant reductions in carbon emissions through the more efficient use of water

We are working to integrate adaptation into our everyday thinking, activities and strategic planning

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.

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

Our energy and carbon management strategy

Energy

The majority of our greenhouse gas emissions result from our consumption of electricity, gas and fuel oils We remain committed to 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 deliver energy efficiency projects and increase the proportion of the energy we generate on site from renewable resources This year, we have met our energy targets, delivering savings of over 9 GWh

As energy represents 11% 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 sixth year and continues to deliver significant reductions in cost

- Savings of £13 million to 2010/11
- An additional £1 4 million saved in 2011/12

Our Energy team, supported by suppliers and colleagues across the business, leads the identification and delivery of energy efficiency projects, including

- **Great Billing Sewage Treatment Works:** £55,000 invested to improve the controls of the energy-intensive aeration plant This has achieved cost savings of over £27,000 per year

- **Raydon Water Treatment Works:** £60,000 invested in a new, efficient borehole pump and variable speed drive This has enabled a more intelligent and efficient pumping regime to be implemented, saving £12,000 per year

The drought has impacted our plans for identifying and delivering water energy efficiency projects We are now targeting some of our energy efficiency site surveys at those water sites where there may be a secondary drought benefit associated with optimising the pumping system We are also scheduling the delivery of projects to maximise the availability of the water pumping systems

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

We generated enough renewable energy in 2011/12 to power around 11,500 homes for a whole year

We saved enough energy in 2011/12 to power around 3,000 houses for a year

Managing our demand

We actively manage our electricity consumption to minimise costs, where operationally possible, by scheduling our electricity usage to optimise benefits from our electricity tariffs This includes reducing our 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

At a number of our sites, pumping regimes have had to change in response to the drought conditions This has limited our opportunity to manage our own electricity demand and optimise pumping efficiency This is particularly marked at those sites pumping into our raw water reservoirs While many of these sites have pumped less water and have therefore used less electricity, there has been an associated impact on efficiency This is because we have had to prioritise the volume of water pumped over how efficiently it is pumped At some sites, like those pumping into Rutland raw water reservoir, it has been necessary to maximise pumping even during the expensive peak-tariff periods

Generating our own renewable energy

This year, we generated 45 9 GWh of renewable energy (2010/11 391 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 around 11,500 homes for a whole year

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

2011/12
- About 65% of biosolids treated to the *enhanced* standard
- More than 400,000 tonnes beneficially recycled as the soil conditioner, Nutri-bio

Renewable electricity
GWh

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 three years we have progressively locked in 100% of our wholesale electricity costs for the next three 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 over 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

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 strategy on carbon is **measure, manage and reduce** Over the five-year period from 2010 our goals are

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

Download our report at www.anglianwater co.uk/carbonmanagement

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

Measure

Annual gross operational carbon emissions have reduced by 3 7% in 2011/12 in comparison to 2010/11, decreasing from 504,026 t/CO_2e to 485,273 t/CO_2e The overall reduction is mainly due to a significant decrease in grid electricity usage in water and wastewater operations, an increase in the volume of self-generated renewable energy and de-carbonisation of the UK power network

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

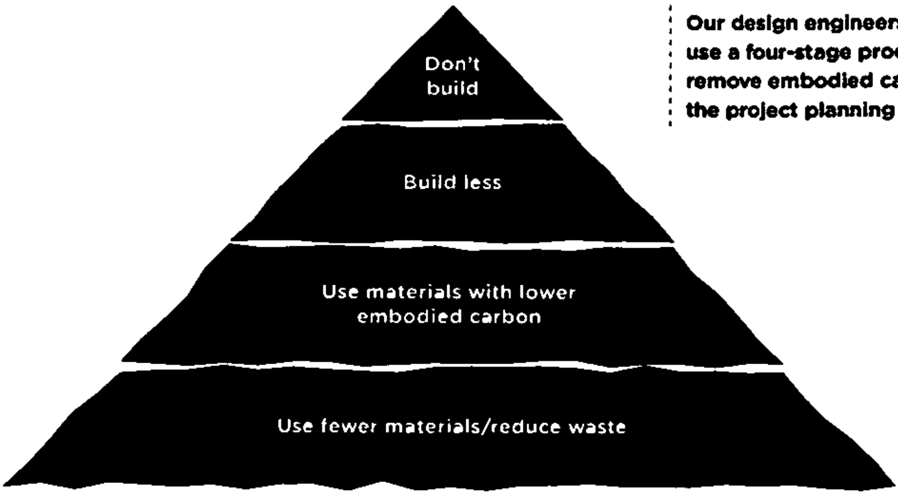
In 2011, we achieved re-certification to CEMARS (Certified Emissions Measurement and Reduction Scheme) in compliance with the requirements of ISO 14064-1 2006 This provided external verification of our carbon measurement and reporting for 2010/11

In 2010, the UK Government launched the Carbon Reduction Commitment (CRC) - a new carbon-related tax During 2012, we will purchase allowances to cover our emissions at a cost of around £4 6 million Further information is available in our annual Greenhouse Gas Report, produced in line with Defra guidance on measuring and reporting greenhouse gas emissions

Manage

Designing out carbon

We're aiming to halve the carbon embodied in every new asset we create, which is why through this 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



Our design engineers use a four-stage process to remove embodied carbon at the project planning stage.

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

Case study: More for less

In modelling carbon impacts, engineers identified that for smaller diameter mains the excavation and reinstatement of a trench formed the largest element of embodied emissions Design engineers following the four-stage process are achieving reductions in embodied carbon through re-use of the void in the ground and identifying the lowest carbon option in the use of 'no dig' techniques This not only reduces the use of finite quarried material but also less time is taken in installing new mains meaning less disruption to both customers and the general public. The proportion of water mains installed through a 'no dig' method such as directional drill, pipebusting or sliplining has increased from around 6% in 2005/10 to over 60% between 2010 and 2012

Reduce

Drop CO_2 campaign

Drop CO_2 encourages colleagues across the business to take an active part in reducing carbon emissions. Initiatives include a popular energy league table that encourages competition between our offices, sites and teams, allowing 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

PLANNING AND INVESTING

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

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

We are acknowledged 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 located in the region

We're the largest of the water companies by area, covering 27,500 square kilometres 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 eight water parks, which play a vital role in the health and wellbeing of families and our growing communities, and provide award-winning wildlife habitats of international importance

Working with others

Since November 2010, through our sponsorship of the University of Cambridge's Sustainable Leadership Programme, we have played a leading role in focusing on the next big step forward for water stewardship

[1] At 2007/08 prices

In 2011/12, we continued to inform and engage with the debate on the reform of the water industry, contributing to a number of competition and policy thought leadership programmes We also published a variety of communications to help shape our industry and influence the behaviour of our customers For example, our *Small Steps Big Impacts* report, published in June 2011, outlined how individual action can make a significant contribution to reducing water consumption We also contributed to the EFRA Select Committee Inquiry following publication of the Government's Water White Paper

P27
Read more about Love Every Drop

Our long-term Love Every Drop campaign continues to make progress both internally and externally through our work and collaboration with many stakeholders We intend to build on the transformational initiative by further developing our contact with customers and by continuing to inspire colleagues and all key stakeholders to work with us to ensure sustainable water services are integral to our long-term future

Supporting growth: major investment on the South Humber Bank

The South Humber Bank is an area of strategic national importance and is home to a number of significant business customers 25% of the UK's petrol and diesel are produced by the two oil refineries situated there and 10% of the UK's power is provided by the neighbouring power stations Additionally, the potential for growth in the region is enormous and is likely to have a significant impact on water demand

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

In order to support the planned growth in the area and in light of the abnormally cold winter of 2010/11, we are making significant investments to both our treatment works and the network supplying the South Humber Bank Anglian Water Business invited the business community to attend a forum in November 2011 to explain its planned £18 million investment, an event that attracted significant interest from existing business customers, future investors and local media

Work to replace damaged pipework supplying the refineries began in November 2011 and further investment for growth will continue into 2012

Love Every Drop is the future

Love Every Drop is a call to action We want to lead the way in raising awareness about the value of water and campaign to change fundamentally how we all engage with it and use it We are working hard to share its key messages, including with young people in schools across the region This year, we exceeded our target of 30,000 people taking part in our community education programme, educating the customers of today and tomorrow on the value of water as our most precious resource in our dry and fast-growing region

Some 20,000 people, mainly Key Stage 2 youngsters, experienced our community 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 interactive sessions designed to encourage an understanding of the need for a sustainable attitude to water, waste disposal and the environment Our work with secondary school students promotes awareness of the environment and climate change and its impact upon our region

Our education managers get out and about too, meeting groups from across our community including students at careers fairs, curious members of the University of the Third Age and local councils They also contribute to events, engaging domestic and business customers supporting our water efficiency and our Keep it Clear campaigns

Our education centres in Leighton Linslade, 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

Our education managers attend events across the region to spread the word about our campaigns on water efficiency in the home and garden, and Keep it Clear.

Case study: Keep it Clear - leading the way to change attitudes and behaviours

Blockages to sewerage networks are expensive to clear, and present a flooding and pollution risk The main cause of these unwanted blockages is fats, oils and grease (FOG) and unflushable items such as sanitary products, nappies and wipes It is an industry-wide challenge, and we have taken the lead in looking at new ways to engage local people, businesses and communities in how best to prevent the wastewater system being used as a rubbish bin To help make fundamental changes to attitudes and behaviours, in October we launched our Keep it Clear campaign with a pilot project in Peterborough We recorded an 80% reduction in blockages as a result of the local campaign, which has now been rolled-out to other areas in the region The campaign was launched at a spectacular animated 3D light show, projected onto Peterborough's Guildhall in Cathedral Square, where hundreds of local people gathered to watch the unique performance

Read more online www.keep-it-clear.co.uk

Our Keep it Clear campaign used eye-catching materials to help get the message across.

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.

Water is our most precious resource and we 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

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

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 well-utilised by employees and this year won a Global Green Award for Internal Communications

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

OUR GOAL **No pollution**

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

Water quality – returning wastewater to the environment

Wastewater Treatment Works Compliance
A significant amount of environmental pressure presented a significant challenge to the compliance at our wastewater treatment works The coldest weather for many years, with temperatures as low as -18°C in some places, followed by one of the driest springs in recent years, put pressure on the operation of our assets A heavy biological 'slough' combined with sludge treatment centre availability issues stretched resources Despite these issues, performance at our wastewater treatment works remained within serviceability targets

Biodiversity Action Plan with 60 high-priority species

Our region is large and diverse and our sites cover many important habitats that are home to rare species of plants and animals We take very seriously our responsibility to protect this wildlife and have drawn up a 10-year plan to preserve and enhance it

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 BAP 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

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 Water 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

RiverCare

We created the award-winning RiverCare project with Keep Britain Tidy, helping communities to care for and monitor wildlife More than 40 teams of community volunteers around the region have adopted a local stretch of river and given 17,000 hours of their time, carrying out regular litter picks and biodiversity checks

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

Getting our staff involved

To encourage as many of our staff as possible to get involved, we produced our own award-winning Biodiversity Field Guide to help them identify our priority species This helps our staff to take part in International Biodiversity Week snap shot surveys, as well as the national Big Butterfly Count, and otter and water vole surveys Staff are encouraged to be "proud of their patch" and the type of biodiversity improvements we are seeing at sites include bug hotels, wildflower meadows, nest boxes and feeding stations

Investigating the plight of the nightingale

We have teamed up with the British Trust for Ornithology to help scientists provide some of the answers as to why nightingale numbers, one of our most enigmatic birds, have dropped by almost two-thirds since 1995 Conservationists believe clues to the continuing decline may lie in changes to the bird's favoured habitats in or along migration routes to their African wintering grounds Nightingales at our Grafham Water reservoir have been fitted with 'geolocators' no bigger than a shirt-button and weighing just half a gram, so scientists can discover where these precious birds spend the winter and which routes they follow to get there This is vital work in order to find out whether they are running into problems along their routes

The latest high-tech tracking technology is being used to understand why nightingale numbers are in decline

Osprey update 2011/12

Through the Rutland Osprey Project (www ospreys org uk), we work in partnership with the Leicestershire & Rutland Wildlife Trust (LRWT) to increase UK osprey numbers and protect their habitats Since it was launched in 1996, the translocation project has provided a home to the first ospreys to breed in England for 150 years, and around 70,000 people visit the site annually

There were 25 ospreys present at Rutland Water last year - including five breeding pairs and 10 chicks - meaning that a total of 53 chicks have hatched at the site since 2001 Each year the birds are observed arriving from Africa in mid-March before travelling back in late August The migration in 2011 and 2012 was particularly interesting because a satellite tracking device was introduced It revealed that, in the autumn, one of the ospreys embarked on a 16-day flight to Senegal in western Africa The osprey flew a total of 2,972 miles, reaching an altitude of 6,112 feet and a top speed of 50 mph

www.ospreys.org.uk

Case study: Restoration of Tetney Blow Wells

Tetney Blow Wells in Lincolnshire was protected for the nation as a Site of Special Scientific Interest in 1968 because of its rare wet fen habitat and for the four artesian springs, or blow wells, which feed it

The blow wells are a series of pools, fed from underground springs, which constantly bubble up through the chalk that lies beneath the Lincolnshire Wolds Water violets grow in the wells themselves, while the marshy ground around them is home to a community of rare wetland plants that earned the site its protected status

The reserve is managed in partnership with the Lincolnshire Wildlife Trust and is accessible by public rights of way

For many years wet woodland and willow scrub has been allowed to spread on the site for the benefits it brings to other wildlife Now though, the trees have become too numerous, overshadowing the pools and threatening to dry out the boggy ground

To return Tetney back to its former glory drastic measures are called for and after agreement with Natural England and the Wildlife Trust we are removing two hectares of woodland to restore the wetland

Surveys revealed otters, water voles, badgers and six species of bat all using the site, so the work has been designed to make sure they are not affected

Working with Lincolnshire Wildlife Trust and Natural England, we are protecting the blow wells while safeguarding the precious wildlife around them

ENSURING WE HAVE SKILLED AND CAPABLE PEOPLE

Anglian Water is one of the largest employers in the region: around 3,800 people work directly for us and, in addition, many thousands are employed directly and indirectly through our supply chain. Their expertise, hard work and commitment are at the heart of the service we provide.

OUR GOAL **Leading employer in our region**

Creating jobs

We are pleased to have been able to create more jobs this year, with 60 people joining us to help find and fix more leaks in our water network, and 50 new employees helping to maintain the extra 31,200 kilometres of sewerage network we became responsible for during the year

"I joined the Leakage team as a Field Technician in 2011 This job brings many opportunities and I enjoy working outside I investigate drops in pressure and meter variances and I get great personal satisfaction when I find what I am looking for and see a drop in the leakage rate It is good to know I am working as part of a team and that I have contributed to the overall target of fixing our leaks more quickly"

Daniel Rickards
Field Technician in Leakage, Water Services

Ten new apprentices started at Grantham College in 2011. Our 2010 intake all passed their first year of training with distinction

" I came to Anglian Water in 2011 with 10 years' experience in leakage The job is brilliant and I could not have a better place to work I am driven by the management targets that I am given, which gives me an aim and a focus Seeing what you have done, where you have been and getting it fixed much faster and better than previously brings about huge job satisfaction for me "

Alan Black
Senior Leakage Technician, Water Services

" I joined Anglian Water in August 2011 after a period of unemployment, although I was undertaking some voluntary work at the time I am a Craft Technician in Wastewater and was recruited to help maintain the extra sewerage network Anglian Water is now responsible for The transition for me back into the workplace was faultless, the company has been very supportive and colleagues have been really helpful The training package that ensured I had all the skills necessary in order that I could competently perform my job was of excellent quality Whatever I needed was provided "

Stephen Harris
Craft Technician, Wastewater

Building technical and professional skills

We continually invest in the technical and professional skills of our workforce, equipping our people to meet business needs and deliver great service to our customers

Our Licence to Operate training and assessment programme ensures our water and wastewater technicians and their managers are competent, and regular repeat assessments mean these standards are maintained More than 300 people were trained and assessed during the year

In 2011/12, we also introduced a new development programme for our specialist scientists 32 employees are now going through this programme, with the ultimate aim of becoming Chartered Scientists

Managers are also expected to continuously develop their skills more than 80 managers have taken part in a variety of training to broaden their experience and capability during the year

" We already have a highly academically qualified scientist team but it is important for both the company and the individuals to continue their professional development This programme tests and develops their technical and leadership skills and is industry-leading It will improve the service scientists give to colleagues and customers and help us retain vital skills in the company"

Robin Price
Regional Quality Manager,
Water Services

Service leadership

One of our most important goals is for 100% of our customers to be very satisfied with our service To make sure we learn from other successful customer-focused businesses, we've held training events for 89 of our key managers, featuring external speakers from a diverse range of companies from retail and fitness to healthcare and logistics These sessions have encouraged new thinking about how we can deliver exceptional service

We've also launched a new training programme for the 2,000 front-line staff who spend most time with our customers These events are key to improving the way we look after customers, and enable staff with the best customer satisfaction ratings to share their best practice and top tips with their colleagues, benefitting everyone

Seeing first-hand what's happening out in the field is the aim of our Back to the Frontline Programme.

Developing internal talent

10% of our staff have more than 25 years' service Achieving our business goals depends on us having a strong pipeline of talented people ready and able to step into roles as their colleagues retire We take succession planning seriously, and invest significant effort in developing employees to take on broader and more responsible roles, in line with their own career aspirations

More than 100 people have worked on secondment in another role or department during the year, helping to widen their experience or develop new skills

We also tripled the number of places on our Institute of Leadership and Management (ILM) programme, which prepares staff for taking on their first management role and leads to an externally accredited diploma in management skills

"I started work for Anglian Water as a Laboratory Technician in 2000 and for the last 10 years I have been an Assistant Chemist in Wastewater During the past seven months, I have been in an Acting Chemist role I welcomed this challenge, and in order to support me my manager offered me the opportunity to study for the Institute of Leadership and Management qualification This has proved invaluable to me in my role, it has given me the skills and confidence to lead a team of 12 I would definitely recommend the ILM development path to any aspiring manager"

Louise Atkinson,
Assistant Chemist Wastewater, Regulation

To demonstrate the importance of developing internal talent, members of our senior management team have run a series of training events in which they've shared their experience and specialist knowledge on subjects ranging from economic regulation and budgeting to strategy and leading business change

We're proud that 59% of management and senior professional vacancies last year were filled by internal candidates

Listening to our employees

We believe that listening to our employees can help us become a better business Every two years, we run a comprehensive and anonymous employee survey, so all employees can give us their views and ideas about working for Anglian Water Our 2011 survey produced a positive set of results, particularly given the amount of change that has been introduced across the organisation 69% of respondents said they are proud to work for the company, 9% higher than the norm for private and public sector employers, and 69% would recommend Anglian Water as an employer (19% higher)

All units now have action plans to address their particular employee feedback We'll be measuring our progress in the next survey, due in 2013

We recognise three trade unions and also operate an elected employee forum, Open House These channels help us involve employees in changes that may affect them, and give employee representatives regular and direct access to the most senior managers in the company

Valuing our employees

We recognise and celebrate employee achievement and contribution in a variety of ways

Line managers have freedom to give vouchers and small bonuses to recognise individuals and teams who have 'gone the extra mile' to provide great customer service and help us achieve our business goals

During the year, we also ran the We Love What You Do Awards, a company-wide event to thank more than 230 employees who had personally made an outstanding contribution to our Love Every Drop targets

Recognising achievement: We Love What You Do Awards

Our Adaptation Report is required by government to demonstrate we understand the impacts of climate change on our business Our latest report demonstrates that Anglian Water has the understanding, the governance, the decision-making processes and monitoring in place to successfully adapt to the changing climate It has been acknowledged by government ministers as the best of any water company and is being used as an exemplar of best practice

The Adaptation Report team received acclaim in our We Love What You Do Awards

Employees can share in the success of the business through the Loyalty Savings Scheme, a risk-free scheme through which they can save up to £250 each month for three years At the end of the savings period, they receive their savings back, plus a loyalty bonus based on the financial performance of the business 325 employees took part in the scheme that matured in 2011, with an average loyalty bonus of £600

Keeping our pension scheme healthy

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

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

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

KEEPING EVERYONE HEALTHY AND SAFE

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

During the year, we continued our *make it safe, make it home* campaign to focus everyone on our health and safety charter, which states

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

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

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

We are already seeing the benefits in our health and safety performance - see below for more details

Measuring our performance

For the eighth consecutive year, our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RoSPA) We are particularly proud this year to have been commended for 'Excellence in Health and Safety in the Water Industry' This major award is presented to organisations who demonstrate consistently excellent and continuously improving performance within specific industry sectors, and is a step up from the Gold Medal that we received in 2011

We have again achieved our best ever health and safety performance this year and were commended for 'Excellence in Health and Safety in the Water Industry' by RoSPA.

Our health and safety system received BS OHSAS 18001 accreditation in 2009 External assessors return for follow-up audits at least every six months, and these audits show continuous improvements year on year We also continue to compare our performance with other water companies through benchmarking

This year, we once again achieved our best ever health and safety performance, seeing significant reductions in both the number and severity of work-related accidents and incidents

We measure our health and safety performance in a number of ways, as explained in the table below

Measure	2009/10	2010/11	2011/12
CHaSPI	7 7	7 8	**8.2**
Category 1 incidents	66	32	**10**
Accident Frequency Rate (AFR)	0 37	0 31	**0.28**

CHaSPI: the Health and Safety Executive voluntary Corporate Health and Safety Performance Index provides a comprehensive picture of overall health and safety performance and allows us to compare how we are doing against the other 161 participating organisations Our data includes both direct employees' and key contractor performance

This year, we achieved 8 2 out of 10, which compares well with the mean score of 6 9 for other employers, and is a further improvement on our performance in the previous year

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

This year we had no Category 1 injuries and there was a very significant reduction in the number of serious near misses

Accident Frequency Rate: the number of reportable accidents in every 100,000 hours worked Our accident frequency rate includes data from both our own employees and our key contractors

Analysis indicates that improved reporting by some of our key contractors has led to an increase in the number of accidents they are reporting This has been offset by a reduction in the number of reportable accidents by direct employees We continue to work closely with our key contractors to share and encourage best practice Our AFR of 0 28 was our best-ever performance

Keeping everyone fit and well

We value our employees and want them to stay fit and healthy for the future

Anglian Water provides comprehensive Occupational Health (OH) support for employees, operates a private health care scheme for all staff and provides fast access to physiotherapy support for those who need it

In addition, employees have access to a free and confidential advice service through our Employee Assistance Programme, offering face-to-face or telephone counselling on a wide range of personal problems from family, relationship and work issues to debt or legal problems The service operates 24/7, and also offers help finding all kinds of practical support from emergency childcare to plumbers

Our in-house OH team has launched a Get Active campaign to encourage everyone to improve their health and well-being This includes offering mini health 'MoTs' to check blood pressure and cholesterol levels, positively encouraging people to exercise and play sport, and providing advice on exercise, nutrition, smoking, alcohol and sleep issues

Reducing sick absence

We have delivered significant productivity improvements through better management of sick absence, which fell from an average of 6 39 days per person per year to 5 08 days over the year This means our employees worked 5,060 more days than in the previous year Our absence rates now compare favourably with the UK private sector average of between four and six days

Keeping our suppliers and contractors safe

In 2011, we further strengthened our site access and permit arrangements to ensure those working on our sites understand safety requirements We also produced a specific *Your Guide to Safety* booklet for contractors

We continue to work with our partners to explore innovative ways to drive the highest possible standards of health and safety throughout our supply chain Health and safety was a key focus area at our suppliers' conference this year as we work together to learn from each other and spread best practice

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 2012 are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc.

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

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 139) 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 129 to 157

Financial results

The consolidated profit and loss account as presented on page 94 is summarised in the table below

	2012 excluding transactions with AWS Holding companies £m	2012 transactions with AWS Holding companies £m	2012 Total £m	2011 Total £m
Turnover	1,138 0	-	1,138 0	1,092 3
Operating costs	(433 0)	-	(433 0)	(396 5)
Depreciation	(254 2)	-	(254 2)	(248 5)
Operating profit (before exceptional profit)	450 8	-	450 8	447 3
Exceptional operating profit	41 3	-	41 3	-
Operating profit	492 1	-	492 1	447 3
Net interest payable and other finance charges	(381 2)	193 6	(187 6)	(151 9)
Profit before tax	110 9	193 6	304 5	295 4
Taxation	(44 1)	-	(44 1)	(28 9)
Profit after tax	66 8	193 6	260 4	266 5
Dividends[1]	(290 0)	(193 6)	(483 6)	(448 1)
Transfer from reserves	(223 2)	-	(223 2)	(181 6)

[1] Dividends paid to shareholders for the year ended 31 March 2012 were £290 0 million (2011 £255 0 million) The remaining £193 6 million (2011 £193 1 million) is an intra-group dividend paid and committed by the group but retained within the Anglian Water Services Financing Group (AWSFG) as defined in the ownership structure on page 13

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 6 million (2011 £193 1 million)

Turnover for the year was £1,138 0 million, up 4 2% on the previous year This primarily reflects the regulatory price increase partially offset by customers switching to metered supplies and thereby lowering their bills

Operating costs for the year increased by £36 5 million (9 2%) to £433 0 million (2011 £396 5 million) The increase is explained in the table below

Increases/(decreases) in operating costs	£m
Inflationary pressures across the business	15 2
One-off credits (principally land disposals) in the prior year not repeating	5 0
Rates increases	11 0
Newly introduced Carbon Reduction Commitment charge	4 6
Operating costs of newly commissioned assets	3 5
Costs in respect of the transfer of private sewers on 1 October 2011	3 3
Additional leakage reduction and sewer clearance costs	2 9
One-off costs associated with changes to the defined benefit pension scheme and other restructuring measures	2 4
Reduced power costs	(1 0)
Targeted efficiency savings	(10 4)
Net increase in operating costs	36 5

Despite the continued challenging economic environment, underlying cash collection from our customers has remained generally consistent with the previous year This reflects our focus on this key area and consequently the bad debt charge of £33 9 million remains broadly in line with the prior year (£33 7 million)

Depreciation is up 2 3% compared with last year, which reflects the ongoing capital investment programme, including the recent commissioning of IT systems and meters, which tend to be depreciated over a shorter period

Operating profit (before exceptional items) has increased by 0 8% to £450 8 million as a result of the increase in turnover, partially offset by the increases in operating costs and depreciation

Following a comprehensive review process, the group implemented significant changes to the main defined benefit employee pension scheme to ensure its long-term sustainability, and this resulted in a non-cash curtailment gain of £41 3 million in 2012, shown as an exceptional operating profit in the accounts The curtailment gain reflects the beneficial impact of the changes on the pension scheme liabilities A substantial proportion of the benefits achieved will be reinvested in the scheme to remove future volatility and risk

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193 6 million, 2011 £193 1 million) increased by 10 5% from £345 0 million in 2011 to £381 2 million in 2012 This increase is predominantly attributable to the non-cash impact of higher Retail Price Index (RPI) on our index-linked debt

Taxation

The tax charge has increased by £15 2 million to £44 1 million This is mainly due to a reduction in long-term UK Gilt rates which increased the discounting charge on deferred tax and a small increase due to higher accounting profits These were partially offset by a 2% reduction in corporation tax rates, and a prior year adjustment credit

Successful second year of AMP5 investment programme

Gross capital expenditure in the appointed business for the year was £407 3 million (£254 5 million on capital maintenance, £152 8 million on capital enhancement) Cumulatively during the first two years of AMP5 we are in line with expected regulatory outputs

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

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

Financial needs and resources

In the year to 31 March 2012 Anglian Water raised £509 8 million of new funds and made debt repayments of £205 7 million Debt repayments comprised £2 8 million of finance leases and £64 3 million of open market repurchases in respect of our £275 million Class B 2012/2037 bond and a repayment of £138 6 million of US private placement debt

At 31 March 2012 Anglian Water had net borrowings of £4,942 5 million, an increase of £356 4 million over the prior year Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £5,640 3 million and cash and deposits of £697 8 million The increased net borrowings reflect an increase of £95 5 million in cash and deposits (which causes net debt to decrease) and an increase of £451 9 million in loans and associated costs to enable repayment of maturing debt over the next 12 months and to meet forecast capital expenditure requirements The business generated a net cash inflow from operating activities of £661 5 million in the year ended 31 March 2012 (2011 £632 1 million)

Distributions

Dividends paid to the ultimate shareholders for the year ended 31 March 2012 were £290 0 million (2011 £255 0 million), which equates to £29 00 per share (2011 £25 50 per share) This included £70 0 million of a special dividend, which is consistent with our stated dividend policy to target stable medium- to long-term gearing levels An intra-group dividend of £193 6 million (2011 £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 intercompany loan of £1,609 1 million This dividend is retained within the Anglian Water Services Financing (AWSF) group In total, dividends of £483 6 million (2011 £448 1 million) have been paid and committed at £48 36 per share (2011 £44 81 per share)

The Directors have proposed a final dividend for the year ended 31 March 2012 of £8 60 per share, which is a total of £86 0 million This distribution has not been accounted for within the 2011/12 financial statements as it was approved after the year end The proposed dividend includes a special dividend of £15 0 million

The dividend policy is to pay ordinary 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 targeted 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 2012 the company held cash, deposits and current asset investments of £697 8 million (2011 £602 3 million) The increase in cash held compared to the prior year reflected pre-funding in 2011/12 of debt repayments falling due in 2012/13 These resources are maintained to ensure appropriate liquidity and the continuation of the company's ongoing capital investment programme The maturity profile of the company's borrowings is set out in note 17 on pages 112 to 118 of the accounts

The new debt raised during the year comprised a Class A $160 million Private Placement (£99 1 million), a Class B $410 million Private Placement (£260 7 million) and £150 0 million of European Investment Bank index-linked funding After the year end a further £250 0 million of new Class A debt was secured through a Sterling bond issue

The company has access to £420 0 million of undrawn facilities (2011 £355 0 million), to finance capital expenditure and working capital requirements In addition, the company has access to a further £355 0 million of liquidity facilities (2011 £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 alternative sources of liquidity

Throughout 2011/12 the UK Base Rate was held at 0 5% and the continued low short-term rates of interest meant that the cost of carry on Anglian Water Services' cash balances continued to be significant Rates received on cash deposits remain at historically low levels and where appropriate Anglian Water Services has worked to reduce the cash held for liquidity purposes in the business to reduce this cost of carry, including, for example, the early repurchase of a proportion of the class B debt maturing in 2012

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, 55 8% (2011 54 9%) of the company's borrowings were at rates indexed to RPI, 34 0% (2011 39 7%) were at fixed rates and 10 2% (2011 5 4%) were at floating rates

Pension funding

The FRS 17 pension deficit (before deferred tax) at 31 March 2012 stood at £62 0 million for all schemes, compared to a deficit of £92 7 million at 31 March 2011 This improvement reflects changes agreed in the year to the Anglian Water Group Pension Scheme, which gave rise to a £41 3 million reduction in the FRS 17 liabilities for past service, experience gains of £33 8 million following the recent triennial valuation and the company making deficit reduction payments of £21 8 million, partially offset by a fall in the corporate bond rates of 0 7% used to discount the pension scheme liabilities The changes to the pension scheme included capping pensionable pay increases for future service, increasing the minimum employee contribution and changing the standard accrual rate for the Water Pensions Section from 60ths to 80ths, all of which will help to reduce the cost burden on customers and improve the long-term sustainability of the scheme for the employees

Regulatory accounts

The regulatory accounts are set out on pages 129 to 157 These show the results of Anglian Water on a non-consolidated basis and provide an analysis of the appointed (regulated) and non-appointed businesses

ANGLIAN WATER SERVICES BOARD OF DIRECTORS

The Directors' report can be found on page 88.

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

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 plc since July 2010, Cellmark Investments AB since 2008 and Hurricane Exploration plc since 2011 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 Michael Page International from 2002 to 2011, 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 Director of the Institute of Asset Management Chris is also a member of the Government's Green Construction Board and chairs the Infrastructure Group 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, who was appointed Chairman of Water UK on 1 April 2012, 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, and 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, CBE
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, Trustee of the Baynards Zambia Trust and a Trustee of Watts Gallery Last 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 the Government Procurement Service, the UK's largest public sector procurement organisation

P13
Read more about our ownership organisation structure

P32
Read more about our key risks

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 2012.

Business review

Following the takeover by Osprey Acquisitions Limited in November 2006 of AWG Plc (since renamed AWG Parent Co Limited), the ultimate parent company of Anglian Water Services Limited continues to be Anglian Water Group Limited, a company registered in Jersey Anglian Water Group Limited is 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 13 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, is included in the Business Review and Financial Performance sections on pages 2 to 85

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 No Director may vote on any contract or arrangement between the company and any other Anglian Water Group company if he/she is also a Director of that Anglian Water Group company In addition, all conflicts of interest should be disclosed

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 and Compliance Monitoring 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

Board effectiveness

An annual review of the Board's effectiveness is conducted by circulating a confidential questionnaire to board members The feedback is reviewed by the Chairman and the findings are discussed by the Board and with individual board members as appropriate

Financial instruments disclosures

Details are included on page 84 of the Business Review and in note 17 of the financial statements

Principal activities

The company provides around 1 1 billion litres of drinking water to 4 4 million people every day The water comes from a variety of sources reservoirs, underground reserves (aquifers) and abstraction from rivers The company receives approximately 927 million litres of wastewater per day from 2 6 million homes and businesses, 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 94 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 107

Health and safety

Details are included on pages 79 to 80

Directors

Current Directors of the company are listed on pages 86 to 87 together with their biographical details 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

Our business operates at the heart of the communities we serve, and the majority of our employees live locally too We believe that offering the time, skills and expertise of Anglian Water employees is the best way in which we can make a sustained community contribution

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

We also continue to provide support to WaterAid - our nominated charity - and do not offer charitable donations or sponsorships to other charities During 2011, the business donated £40,000 to WaterAid and our WaterAid Volunteers' Committee, with the support of many employee volunteers, partners and suppliers across the business, successfully fundraised an extra £372,000 - the highest amount ever raised by this committee

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

Research and development

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

Employees

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

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

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

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

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

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 2012 was 45 days (2011 39 days)

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 27 of the group financial statements

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
1 June 2012

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 2012 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 the 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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GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Group profit and loss account

for the year ended 31 March

Notes		2012 £m	2011 £m
2	**Turnover**	**1,138.0**	1,092 3
	Operating costs		
	- Operating costs before depreciation and exceptional operating profit	**(433 0)**	(396 5)
	- Depreciation net of amortisation of grants and contributions	**(254.2)**	(248 5)
4	- Exceptional operating profit	**41.3**	-
3	**Total operating costs**	**(645.9)**	(645 0)
	Operating profit	**492 1**	447 3
6	Net interest payable	**(182.1)**	(141 6)
7	Other finance charges	**(5.5)**	(10 3)
5	**Profit on ordinary activities before taxation**	**304.5**	295 4
8	Tax on profit on ordinary activities	**(44.1)**	(28 9)
	Profit for the financial year	**260.4**	266 5

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

BUSINESS REVIEW GOVERNANCE STATUTORY ACCOUNTS REGULATORY ACCOUNTS

Group statement of total recognised gains and losses

for the year ended 31 March

Notes		2012 £m	2011 £m
	Profit for the financial year	**260 4**	266 5
21	Actuarial (loss)/gain recognised on the pension schemes	**(34.6)**	86 2
8	Current tax relating to the actuarial loss on the pension schemes	**6.3**	-
20	Movement on deferred tax relating to the actuarial loss/(gain) on the pension schemes	**2.7**	(24 1)
20	Impact of change in tax rate on deferred tax on pension schemes	**0 1**	0 3
	Total recognised gains and losses relating to the year	**234.9**	328 9

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

Group and company balance sheets

at 31 March

Notes		Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
	Fixed assets				
12	Tangible assets	**4,812.2**	4,678 8	**4,812.2**	4,678 8
13	Investments	**1,609.1**	1,609 1	**1,609.1**	1,609 1
		6,421.3	6,287 9	**6,421.3**	6,287 9
	Current assets				
14	Stocks	**9.2**	9 6	**9.2**	9 6
15	Debtors	**372.5**	331 3	**372.4**	372 3
	Investments - money market deposits	**133.2**	47 5	**133.2**	37 5
	Cash at bank and in hand (including short-term deposits)	**564.6**	554 8	**522.9**	479 4
		1,079.5	943 2	**1,037.7**	898 8
	Creditors: amounts falling due within one year				
16 17	Short-term borrowings	**(213.9)**	(141 4)	**(213.9)**	(141 4)
16	Other creditors	**(526.2)**	(436 1)	**(529.5)**	(436 0)
		(740.1)	(577 5)	**(743.4)**	(577 4)
	Net current assets	**339.4**	365 7	**294.3**	321 4
	Total assets less current liabilities	**6,760.7**	6,653 6	**6,715.6**	6,609 3
	Creditors: amounts falling due after more than one year				
17	Loans and other borrowings	**(5,426.4)**	(5,047 0)	**(5,426.4)**	(5,047 0)
18	Other creditors	**(136.1)**	(142 0)	**(136.1)**	(142 0)
		(5,562.5)	(5,189 0)	**(5,562.5)**	(5,189 0)
19	**Provisions for liabilities**	**(63.0)**	(59 2)	**(63.0)**	(59 2)
	Net assets excluding pension liabilities	**1,135.2**	1,405 4	**1,090 1**	1,361 1
21	**Defined benefit pension liabilities**	**(47.1)**	(68 6)	**(47 1)**	(68 6)
	Net assets including pension liabilities	**1,088.1**	1,336 8	**1,043.0**	1,292 5
	Capital and reserves				
23	Called up share capital	**10.0**	10 0	**10.0**	10 0
24	Profit and loss account	**1,078.1**	1,326 8	**1,033.0**	1,282 5
	Total shareholder's funds	**1,088.1**	1,336 8	**1,043.0**	1,292 5

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

The financial statements on pages 94 to 127 were approved by the board of Directors on 1 June 2012 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		2012 £m	2011 £m
(a)	**Net cash inflow from operating activities**	**661.5**	632 1
	Returns on investments and servicing of finance		
	Interest received	**197.8**	197 9
	Interest paid	**(226.1)**	(220 2)
(d)	Issue costs of new debt issued	**(3.1)**	(1 8)
	Interest element of finance lease rental payments	**(3.1)**	(3 3)
	Net cash outflow from returns on investments and servicing of finance	**(34.5)**	(27 4)
	Taxation		
	Corporation tax paid	**-**	(0 5)
	Payments to other Anglian Water Group Limited group undertakings	**(18.0)**	(26 8)
	Net cash outflow from taxation	**(18.0)**	(27 3)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(358.6)**	(277 3)
	Grants and contributions received	**22.7**	24 0
	Disposal of tangible fixed assets	**1.4**	2 3
	Net cash outflow for capital expenditure and financial investment	**(334.5)**	(251 0)
	Equity dividends paid to shareholders	**(483.1)**	(448 1)
	Net cash outflow before management of liquid resources and financing	**(208.6)**	(121 7)
(c)	**Management of liquid resources**		
(d)	(Increase)/decrease in short-term deposits and investments	**(71.7)**	18 3
	Financing		
(d)	Increase in amounts borrowed	**509.8**	130 0
(d)	Repayment of amounts borrowed	**(202.9)**	(80 5)
(d)	Capital element of finance lease rental payments	**(2 8)**	(2 5)
	Net cash inflow from financing	**304 1**	47 0
(d)	**Increase/(decrease) in cash**	**23.8**	(56 4)

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

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

	2012 £m	2011 £m
Operating profit	**492.1**	447 3
Depreciation (net of amortisation of deferred grants and contributions)	**254.2**	248 5
Profit on sale of fixed assets	**(1.3)**	(2 2)
Difference between pension charge and cash contributions	**(26.7)**	(26 5)
Exceptional operating profit (non-cash item)	**(41.3)**	-
Net movement in provisions	**(0.2)**	(0 2)
	676.8	666 9
Working capital		
Decrease in stocks	**0.4**	0 4
Increase in debtors	**(40.7)**	(20 3)
Increase/(decrease) in creditors	**25.0**	(14 9)
	(15.3)	(34 8)
Net cash inflow from operating activities	**661.5**	632 1

(b) Analysis of net debt

	1 April 2011 £m	Cash flows £m	Non-cash movements £m	31 March 2012 £m
Cash at bank and in hand	131 7	23.8	-	155.5
Deposits and investments	470.6	71.7	-	542.3
Short-term borrowings	(141 4)	141.3	(213.8)	(213.9)
Loans and other borrowings due after more than one year	(5,047 0)	(442.3)	62.9	(5,426.4)
	(4,586.1)	(205.5)	(150.9)	(4,942.5)

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 £409 1 million (2011 £423 1 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

	2012 £m	2011 £m
At 1 April	**(4,586.1)**	(4,355 2)
Net increase/(decrease) in cash	**23.8**	(56 4)
Increase/(decrease) in short-term bank deposits and investments	**71.7**	(18 3)
Increase in borrowings	**(509.8)**	(130 0)
Repayment of amounts borrowed	**202.9**	80 5
Capital element of finance lease rental payments	**2.8**	2 5
Issue costs of new debt issued	**3.1**	1 8
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	**(2.0)**	(1 7)
Indexation of loan stock and RPI swaps	**(148.9)**	(109 3)
At 31 March	**(4,942.5)**	(4,586 1)

Notes to the group financial statements

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

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

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

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

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

Turnover represents amounts recoverable from the regulated business activities, including water, wastewater and environmental services, and non-regulated business, which primarily comprises legal searches to locate utility infrastructure, domestic emergency and personal accident insurance cover and recreation services Turnover relates to charges due in the year, excluding amounts paid in advance 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 £4 3 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 160)

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

(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

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 events or change in circumstances indicate that the carrying value may not be recoverable

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

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

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

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

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

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

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

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

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

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

t) Other onerous contract costs
Provision is made for a contractual obligation on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument

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

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

Notes to the group financial statements continued

2 Segmental analysis

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

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

3 Operating costs

	2012 £m	2011 £m
Operating costs before depreciation and exceptional operating profit		
Raw materials and consumables	**19 3**	16 0
Other operating costs	**319.3**	284 8
Staff costs (see note 10)	**155.0**	146 4
Own work capitalised	**(59 9)**	(49 2)
Contribution to Anglian Water Assistance Fund	**0.6**	0 7
Profit on sale of fixed assets	**(1.3)**	(2 2)
Total operating costs before depreciation and exceptional operating profit	**433.0**	396 5
Depreciation of tangible fixed assets		
- Owned	**254.5**	248 4
- Held under finance leases	**7.9**	8 0
Amortisation of deferred grants and contributions	**(8.2)**	(7 9)
Depreciation net of amortisation of deferred grants and contributions	**254.2**	248 5
Exceptional operating profit	**(41.3)**	-
Total operating costs	**645 9**	645 0

The exceptional operating profit in 2012 comprises the gain on curtailment arising on pension schemes of £41 3 million (see note 4)

4 Exceptional operating profit

	2012 £m	2011 £m
Pension curtailment	**41 3**	-

Following a comprehensive review process, in 2011/12 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme These changes resulted in a curtailment credit of £41 3 million (see note 21)

No tax charge arises from this exceptional profit

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5 Profit on ordinary activities before taxation

	2012 £m	2011 £m
Profit before taxation is stated after charging/(crediting)		
Profit on disposal of tangible fixed assets	**(1.3)**	(2 2)
Hire of machinery and equipment	**2.5**	2 5
Other operating lease rentals	**2.1**	2 6
Research and development expenditure	**0.1**	0 2
Fees paid to the auditors		
- Auditing the company's financial statements and the accounts of any associate of the company	**0.2**	0 2
- Audit-related assurance services	**-**	0 1
- Other assurance services	**-**	0 1
- Other non-audit services	**0.2**	0 5
Total fees paid to the auditors	**0.4**	0 9

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

6 Net interest payable

	2012 £m	2011 £m
Other loans including financing expenses	**229.4**	227 3
Indexation	**148.9**	109 3
Finance leases	**2.9**	3 2
Interest receivable from Anglian Water Services Holdings Limited	**(193.6)**	(193 1)
Other interest receivable	**(5.5)**	(5 1)
Net interest payable and similar items	**182.1**	141 6

7 Other finance charges

	2012 £m	2011 £m
Unwinding of discount on provisions and change in discount rates (see note 19)	**2.8**	1 0
Defined benefit pension scheme (see note 21(f))	**2.7**	9 3
Other finance charges	**5.5**	10 3

Notes to the group financial statements continued

8 Taxation

a) Analysis of tax charge in the year

	2012 £m	2011 £m
Current tax		
UK corporation tax	**39.8**	24 5
Adjustments in respect of previous periods	**(8.6)**	(10 7)
Total current tax charge	**31 2**	13 8
Deferred tax		
(Credit)/charge for timing differences arising in year	**(6.1)**	7 2
Impact of discounting on deferred tax liability	**(8 7)**	(0 7)
Impact of decrease in discount rates	**34.1**	3 7
Effect of reduction in corporation tax rate to 24% (2011 to 26%)	**(5.1)**	(8 7)
Adjustments in respect of previous periods	**(1.3)**	13 6
Total deferred tax charge	**12.9**	15 1
Total tax charge on profit on ordinary activities	**44.1**	28 9

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 £34 1 million (2011 £3 7 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 26% to 24% that is effective from 1 April 2012, all relevant deferred tax balances have been re-measured Further changes to the UK corporation tax rate have been announced which propose to reduce the rate by 1% per annum to 22% by 1 April 2014 These changes, which are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements

The effect of the proposed reduction in the corporation tax rate to 23% from 1 April 2013, which is expected to be enacted in the Finance Act 2012, would be to reduce the deferred tax liability provided at the balance sheet date, and to reduce the tax charge for the year ended 31 March 2013, by £2 6 million The proposed reduction in the rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately and, if it applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax liability by an additional £2 5 million

The current tax adjustment for previous periods relates to a credit for the agreement of prior year tax computations of £3 5 million (2011 credit of £17 1 million) and a credit to another group company for expected ACT utilisation of £8 9 million (2011 charge of £1 7 million) offset by a prior year capital allowances disclaimer charge of £3 8 million (2011 charge of £4 7 million) In both years, the deferred tax adjustments for prior years related to the agreement of prior year tax computations

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 6 million (2011 £193 1 million)

In addition to the current tax charge above, a £6 3 million (2011 £nil) credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account

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 of 26% (2011 28%)
The differences are explained below

	2012 £m	2011 £m
Profit on ordinary activities before tax	**304.5**	295 4
Profit on ordinary activities at the standard UK rate of corporation tax (26%, 2011 28%)	**79.2**	82 7
Effects of		
Items not deductible for tax purposes	**1.0**	0 8
Items not taxable	**(0.3)**	(0 6)
Group relief utilised	**(50.3)**	(54 1)
Depreciation not eligible for tax purposes	**4.1**	4 2
Industrial buildings allowance	**-**	(1 3)
Depreciation for the year in excess of/(less than) capital allowances	**18.3**	(0 8)
Short-term timing differences	**(12.2)**	(6 4)
Adjustment to tax charge in respect of previous periods	**(8.6)**	(10 7)
Current tax charge for the year	**31.2**	13 8

9 Dividends

	2012 £m	2011 £m
Previous year final dividend	**200.0**	210 0
Current year interim dividend	**90 0**	45 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	**1.0**	0 5
	483.6	448 1

A dividend of £193 6 million (2011 £193 1 million) was paid/committed 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 2011

The Directors have proposed a final dividend for the year ended 31 March 2012 of £8 60 per share, which is a total of £86 0 million The proposed dividend includes a special dividend of £15 0 million to maintain gearing at agreed levels This distribution has not been accounted for within the 2012 financial statements as it was proposed and approved after the year end

Notes to the group financial statements continued

10 Employee information and Directors' emoluments

a) Employee information	2012 £m	2011 £m
Staff costs		
Wages and salaries	**127.7**	119 2
Social security costs	**11.6**	10 9
Pension costs - defined contribution (see note 21)	**4.1**	4 5
Pension costs - defined benefit (see note 21(f))	**11.6**	11 8
Staff costs excluding curtailment gain	**155.0**	146 4
Pension costs - curtailment gain (see notes 4 and 21)	**(41.3)**	-
	113.7	146 4

Staff costs for the year ended 31 March 2012 include £44 6 million (2011 £35 9 million) of costs that have been capitalised as 'own work capitalised'

	2012	2011
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	**623**	605
Wastewater Services	**1,470**	1,419
Customer Services	**746**	754
Asset Management and Other	**926**	918
	3,765	3,696

b) Directors' emoluments	2012 £'000	2011 £'000
Total aggregate emoluments	**2,107**	2,052
Company contributions to defined contribution pension schemes	**110**	209
Benefits received under long-term incentive plans	**480**	284

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 (2011 one Director) under a defined benefit pension scheme Retirement benefits are accruing to four Directors (2011 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	2012 £'000	2011 £'000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	**1,024**	896
Accrued defined benefit at year end	**52**	47

The company's contribution in respect of the highest paid Director into defined contribution pension schemes was £7,000 (2011 £46,000)

11 Profit for the financial year

The company has presented its own profit and loss account as permitted by section 408 of the Companies Act 2006 The profit for the year, dealt with in the financial statements of the company is £259 6 million (2011 £265 6 million)

12 Tangible fixed assets

	Group and company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2011	**38.7**	**3,170 1**	**3,915.1**	**866.9**	**172.3**	**8,163.1**
Additions	**-**	**-**	**-**	**-**	**409 0**	**409.0**
Transfers on commissioning	**0.9**	**101.0**	**73.6**	**58.9**	**(234.4)**	**-**
Disposals	**-**	**-**	**(0.3)**	**(6.9)**	**-**	**(7 2)**
At 31 March 2012	**39.6**	**3,271.1**	**3,988.4**	**918.9**	**346.9**	**8,564.9**
Grants and contributions						
At 1 April 2011	**-**	**(256.0)**	**-**	**-**	**(0.1)**	**(256.1)**
Additions	**-**	**(11 7)**	**-**	**-**	**(1.4)**	**(13.1)**
At 31 March 2012	**-**	**(267.7)**	**-**	**-**	**(1.5)**	**(269.2)**
Depreciation						
At 1 April 2011	**(4.4)**	**(881.6)**	**(1,708.2)**	**(634.0)**	**-**	**(3,228 2)**
Charge for the year	**(0.4)**	**(75.9)**	**(126.2)**	**(59.9)**	**-**	**(262.4)**
Disposals	**-**	**-**	**0.2**	**6.9**	**-**	**7.1**
At 31 March 2012	**(4.8)**	**(957.5)**	**(1,834.2)**	**(687.0)**	**-**	**(3,483.5)**
Net book value						
At 31 March 2012	**34.8**	**2,045.9**	**2,154.2**	**231.9**	**345.4**	**4,812.2**
At 31 March 2011	34 3	2,032 5	2,206 9	232 9	172 2	4,678 8

Tangible fixed assets at 31 March 2012 include land of £24 7 million (2011 £24 5 million) which is not subject to depreciation The group's interests in land and buildings are almost entirely freehold

Assets held under finance leases and capitalised in the above	**2012 £m**	2011 £m
Cost	**236.9**	236 9
Aggregate depreciation	**(164.1)**	(156 2)
Net book value	**72.8**	80 7

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 2012

	2012 £m	2011 £m
Contracted for but not provided in the financial statements	**220.0**	42 4

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Notes to the group financial statements continued

13 Fixed asset investments

	Group and company	
	2012 £m	2011 £m
Loan to Anglian Water Services Holdings Limited	**1,609.1**	1,6091
Investment in Anglian Water Services Financing Plc	**-**	-

The loan of £1,6091 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 2012

14 Stocks

	Group and company	
	2012 £m	2011 £m
Raw materials and consumables	**9.2**	9 6

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

15 Debtors

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Amounts falling due within one year				
Trade debtors	**176.6**	1678	**176.6**	1678
Amounts owed by other Anglian Water Group Limited group undertakings	**1 9**	1 2	**1.9**	42 2
Other debtors	**13.8**	10 7	**13.8**	10 7
Prepayments and accrued income	**179 3**	150 5	**179.2**	150 5
	371.6	330 2	**371.5**	371 2
Amounts falling due after more than one year				
Amounts owed by other Anglian Water Group Limited group undertakings	**0.9**	11	**0.9**	11
	372.5	331 3	**372.4**	372 3

Prepayments and accrued income as at 31 March 2012 includes water and wastewater income not yet billed of £1731 million (2011 £144 2 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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Current portion of long-term loans	**210.5**	138 5	**210.5**	138 5
Obligations under finance leases	**3.4**	2 9	**3.4**	2 9
Short-term borrowings (see note 17)	**213.9**	141 4	**213.9**	141 4
Trade creditors	**170.3**	111 7	**170.3**	111 7
Amounts owed to other Anglian Water Group Limited group undertakings	**1.0**	0 5	**107.9**	105 6
Receipts in advance	**121.0**	115 9	**121.0**	115 9
Corporation tax	**78.2**	62 4	**78.2**	62 4
Other taxation and social security	**3.4**	3 1	**3.4**	3 1
Deferred grants and contributions	**8.1**	7 8	**8.1**	7 8
Accruals	**144.2**	134 7	**40.6**	29 5
Other creditors	**526.2**	436 1	**529.5**	436 0

Receipts in advance includes £107 4 million (2011 £101 6 million) relating to amounts received from customers for water and wastewater charges in respect of bills that fall due in the following year

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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Loans and other borrowings				
£100 million 12 375% fixed rate 2014 (d), (f)	**100.0**	100 0	**100.0**	100 0
£250 million 5 837% fixed rate 2022 (d), (f)	**247.9**	247 7	**247.9**	247 7
£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**	200 0	**200.0**	200 0
£246 million 6 293% fixed rate 2030 (d), (f)	**244.2**	244 1	**244.2**	244 1
£275 million 7 882% fixed rate 2012/2037[1] (d), (f), (g), (i)	**210.5**	274 5	**210.5**	274 5
£250 million 5 25% fixed rate 2015 (b), (d), (f)	**249.8**	249 8	**249.8**	249 8
£150 million 5 5% fixed rate 2017/2040[2] (b), (d), (f), (g)	**149.2**	149 1	**149.2**	149 1
£150 million 4 125% index-linked 2020 (c), (d), (f)	**214.2**	203 6	**214.2**	203 6
£75 million 3 666% index-linked 2024 (c), (d), (f)	**101.6**	96 6	**101.6**	96 6
£200 million 3 07% index-linked 2032 (c), (d), (f)	**269.6**	256 1	**269.6**	256 1
£60 million 3 07% index-linked 2032 (c), (d), (f)	**81.3**	77 4	**81.3**	77 4
Finance leases (b), (d), (i)	**59.3**	62 1	**59.3**	62 1
£150 million index-linked swap 2024 (e), (f)	**16.0**	6 2	**16.0**	6 2
£175 million index-linked swap 2030 (e), (f)	**18.5**	7 1	**18.5**	7 1
£258 million index-linked swap 2013 (e), (f)	**78.6**	62 7	**78.6**	62 7
€650 million 4 625% fixed rate 2013 (a), (b), (d), (f)	**453.1**	453 0	**453.1**	453 0
US$195 million 7 23% private placements 2011 (a), (d), (f)	**-**	138 5	**-**	138 5
£402 million 2 40% index-linked 2035 (c), (d), (f)	**504.9**	480 0	**504.9**	480 0
£50 million 1 7% index-linked 2046 (c), (d), (f)	**60.7**	57 7	**60 7**	57 7
£50 million 1 7% index-linked 2046 (c), (d), (f)	**60.5**	57 6	**60.5**	57 6
£40 million 1 7146% indexation bond 2056 (c), (d), (f)	**48.9**	46 5	**48.9**	46 5
£50 million 1 6777% indexation bond 2056 (c), (d), (f)	**61.1**	58 1	**61.1**	58 1
£60 million 1 7903% indexation bond 2049 (c), (d), (f)	**73.3**	69 7	**73.3**	69 7
£100 million 1 3784% indexation bond 2057 (c), (d), (f)	**121.4**	115 5	**121.4**	115 5
£50 million 1 3825% indexation bond 2056 (c), (d), (f)	**60.7**	57 7	**60.7**	57 7
£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)	**19.8**	14 1	**19.8**	14 1
£75 million 1 449% indexation bond 2062 (c), (d), (f)	**85.5**	81 5	**85.5**	81 5
£50 million 1 52% indexation bond 2055 (c), (d), (f)	**56.9**	54 3	**56.9**	54 3
JPY 15 billion 2 925% fixed rate bond 2018/2037 (a), (b), (d), (f)	**65.9**	65 9	**65.9**	65 9
£65 9 million index-linked swap 2059 (e), (f)	**9.4**	5 9	**9.4**	5 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)	**7.0**	4 3	**7.0**	4 3
JPY 5 billion 3 22% fixed rate bond 2019/2038 (a), (b), (d), (f)	**25.0**	25 0	**25.0**	25 0
€500 million 6 25% fixed rate bond 2016 (a), (b), (d), (f)	**392.9**	392 7	**392.9**	392 7
£25 million 6 875% private placements 2034 (d), (f)	**24.6**	24 6	**24.6**	24 6
£100 million Class B 6 75% fixed rate bond 2014/2024[3] (d), (f), (g)	**99 0**	98 9	**99.0**	98 9
EIB £50 million 1 626% index-linked term facility 2019 (c), (d), (f)	**56.1**	53 6	**56 1**	53 6
EIB £50 million 1 3% index-linked term facility 2020 (c), (f)	**55.4**	52 9	**55 4**	52 9
£130 million 2 262% index-linked bond 2045 (c), (d), (f)	**140 0**	133 6	**140.0**	133 6
US$160 million 4 52% private placements 2021 (a), (b), (d), (f)	**98.5**	-	**98.5**	-
US$410 million 5 18% private placements 2021 (a), (b), (d), (f)	**258.6**	-	**258.6**	-
EIB £75 million 0 53% index-linked term facility[4] 2027 (c), (d), (f)	**75.3**	-	**75.3**	-
EIB £75 million 0 79% index-linked term facility[4] 2027 (c), (d), (f)	**75.3**	-	**75.3**	-

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Total loans and other borrowings	**5,640.3**	5,188 4	**5,640.3**	5,188 4
Less amounts included in creditors falling due within one year	**(213.9)**	(141 4)	**(213.9)**	(141 4)
Loans and other borrowings due after more than one year	**5,426 4**	5,047 0	**5,426.4**	5,047 0

(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 £3 4 million (2011 £171 million), the adjustment to the Euro loans is £(111 8) million (2011 £(168 6) million) and the adjustment to the Japanese Yen loan is £(60 3) million (2011 £(59 3) million)

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy (see page 103)

(c) The value of the capital and interest elements of the index-linked loans are linked to movements in the Retail Price Index (RPI) The total increase in the capital value of index-linked loans during the year of £100 2 million (2011 £82 1 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 £48 7 million (2011 £27 2 million) has been taken to the profit and loss account as part of interest payable In addition, a forward starting index-linked interest rate swap agreement for £25 0 million has been contracted at 31 March 2012

(f) 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 on lends 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 along with a 'break clause' allowing repayment in full at this date, which the company intends to exercise

(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 2012 this charge applies to £5,640 3 million (2011 £5,188 4 million) of the debt listed above

(i) Amounts repayable wholly or partly within one year

[1] The coupon for this instrument will increase to Floating rate LIBOR plus 6 0% effective July 2012 In addition, during the year to 31 March 2012 the company repurchased and cancelled £64 3 million bonds of this instrument
[2] The coupon for this instrument will increase to Floating rate 3 month LIBOR plus 3 5% effective October 2017
[3] The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10 9% effective June 2014
[4] These instruments are amortising from 2017 until the date of maturity shown

Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

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

	2012		2011	
	Creditors < 1 year £m	**Creditors > 1 year £m**	Creditors < 1 year £m	Creditors > 1 year £m
Amounts owed to group undertakings	**210.6**	**5,389.4**	138 5	5,005 7
Debt issue costs	**(0.1)**	**(18.9)**	-	(17 9)
Obligations under finance leases	**3.4**	**56.0**	2 9	59 3
Finance lease issue costs	**-**	**(0.1)**	-	(0 1)
	213.9	**5,426 4**	141 4	5,047 0

Maturity analysis of financial liabilities

	Group and company	
	2012 £m	2011 £m
Less than one year	**215.8**	143 1
Between one and two years	**640.9**	15 8
Between two and five years	**682.0**	885 7
After five years	**4,136.6**	4,180 8
	5,675.3	5,225 4

Included above are amounts due under finance leases of £3 4 million (2011 £2 9 million) payable within one year, £3 7 million (2011 £3 3 million) payable between one and two years, £18 4 million (2011 £16 8 million) payable between two and five years and £33 8 million (2011 £39 1 million) payable after five years The above maturity profile is determined by reference to the fixed dates on which the liability falls due

In addition to loans and finance leases the above analysis includes other financial liabilities totalling £31 0 million (2011 £26 1 million), of which £1 9 million falls due in less than one year (2011 £1 7 million) This analysis is net of issue costs totalling £19 1 million (2011 £18 0 million)

Borrowing facilities

	Group	
	2012 £m	2011 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	**355.0**	355 0
Expiring between one and two years	**-**	355 0
Expiring between two and five years	**420.0**	-
	775.0	710 0

Control of treasury

The Treasury team, which reports directly to the Managing Director of 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 2012 and treasury matters are reported to the board each month

A Finance, Treasury and Energy Policy Group (FTEPG), comprising the Managing Director of 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 88) 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

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Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

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

Fair value of financial assets and financial liabilities	2012		2011	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
The fair value of the group's financial instruments at 31 March was				
Cash at bank and in hand	**564.6**	**564.6**	554 8	554 8
Current asset investments	**133.2**	**133.2**	47 5	47 5
Short-term borrowings	**(213.9)**	**(219.3)**	(124 3)	(128 2)
Long-term borrowings	**(5,446.0)**	**(6,235.3)**	(5,174 5)	(5,548 8)
Interest rate swaps	**168 7**	**244.1**	210 8	263 0
Index-linked swaps	**(149.1)**	**(583.4)**	(100 4)	(449 1)
Net debt	**(4,942 5)**	**(6,096.1)**	(4,586 1)	(5,260 8)
Energy hedging instruments	**-**	**(0.7)**	-	24 8
Fixed asset investments	**1,609.1**	**1,930 9**	1,609 1	1,930 9
Provisions excluding deferred tax and pension obligations	**(31.0)**	**(66.5)**	(26 1)	(23 1)
	(3,364.4)	**(4,232.4)**	(3,003 1)	(3,328 2)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £103 8 million (2011 £105 4 million) The book value excludes accrued interest which is shown separately in the balance sheet within creditors amounts falling due within one year

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

The fair value of the group's energy hedging instruments is calculated to reflect the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2012 The value at that date was determined by market rates, which fluctuate over time

The fair value of the group's fixed asset investment is derived by discounting future interest cash flows receivable

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

Interest is charged to the profit and loss account based on the contracted interest rates To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2012 The value at that date was determined by market 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

Unrecognised gains and losses on hedges

	2012			2011		
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	**106.1**	**(374.8)**	**(268.7)**	101 3	(309 6)	(208 3)
Reversal of items unrecognised at 1 April	**(5.0)**	**-**	**(5.0)**	(2 1)	5 9	3 8
Recognised during the year	**(46.1)**	**50.1**	**4 0**	(28 8)	44 0	15 2
Arising during the year	**54.9**	**(180.3)**	**(125.4)**	35 7	(115 1)	(79 4)
Unrecognised at 31 March	**109.9**	**(505 0)**	**(395.1)**	106 1	(374 8)	(268 7)

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 £395 1 million (2011 £268 7 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2012

Of the unrecognised gains and losses at 31 March 2012, a net gain of £14 6 million (2011 £34 9 million) is expected to be included in the profit and loss account for the year ended 31 March 2013 and the balance in future years

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

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2012

	Total £m	**Index-linked £m**	**Floating rate £m**	**Fixed rate £m**	**Interest free £m**	**Fixed rate weighted average interest rate**	**Fixed rate weighted average years to maturity**
Total borrowings (all sterling)[1]	**(5,640.3)**	**(3,150.0)**	**(574.2)**	**(1,916.1)**	**-**	**7.0%**	**10.3**
Cash, deposits and current asset investments (all sterling)	**697.8**	**-**	**697.8**	**-**	**-**		
Net debt	**(4,942.5)**	**(3,150.0)**	**123.6**	**(1,916 1)**	**-**		
Fixed asset investments	**1,609.1**	**-**	**-**	**1,609 1**	**-**	**12%**	
Provisions	**(31.0)**	**-**	**-**	**-**	**(31.0)**		
Net financial liabilities	**(3,364.4)**	**(3,150.0)**	**123.6**	**(307.0)**	**(31.0)**		

[1] The underlying currencies of borrowings as set out on page 112 have been swapped to sterling

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Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 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)[1]	(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	-	-		
Net debt	(4,586 1)	(2,850 8)	322 2	(2,057 5)	-		
Fixed asset investments	1,609 1	-	-	1,609 1	-	12 0%	
Provisions	(26 1)	-	-	-	(26 1)		
Net financial liabilities	(3,003 1)	(2,850 8)	322 2	(448 4)	(26 1)		

[1] The underlying currencies of borrowings as set out on page 112 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 2012 £m	Group and company 2011 £m
Deferred grants and contributions	**132.1**	131 1
Amounts owed to other Anglian Water Group Limited group undertakings	**4.0**	10 9
	136.1	142 0

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

19 Provisions for liabilities

	Group and company				
	Onerous lease obligation £m	Other onerous contracts £m	Coupon enhancement provision £m	Deferred tax provision £m	Total £m
At 1 April 2011	**1.7**	**12.7**	**11.7**	**33.1**	**59.2**
Charge/(credit) for the year	-	**4.6**	-	**(1.1)**	**3.5**
Unwinding of discount and change in discount rates (note 7)	**0.1**	-	**2.7**	-	**2.8**
Utilised in the year	**(0.2)**	-	**(2.3)**	-	**(2 5)**
At 31 March 2012	**1 6**	**17.3**	**12 1**	**32.0**	**63 0**

The onerous lease provision relates to office space vacated by the group as part of the cost cutting programme to achieve efficiency targets set by Ofwat The provision is discounted and is expected to be utilised over the next 11 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 £12 1 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 18 years and has been discounted

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

20 Deferred tax

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

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £63 8 million

	Group and company	
	2012 £m	2011 £m
Accelerated capital allowances	**561.4**	629 8
Short-term timing differences	**(5.0)**	(6 9)
Surplus ACT asset	**(142.5)**	(140 5)
Undiscounted provision for deferred tax	**413.9**	482 4
Discount	**(381.9)**	(449 3)
Discounted provision for deferred tax	**32 0**	33 1
Deferred tax asset on pension liability (see note 21(b))	**(14 9)**	(24 1)
Total deferred tax included in the balance sheet	**17.1**	9 0

As at 1 April 2011	**9.0**
Deferred tax charged to the profit and loss account (see note 8(a))	**12.9**
Deferred tax credited to the statement of total recognised gains and losses	**(2.8)**
ACT written back in the year	**(2.0)**
At 31 March 2012	**17.1**

Notes to the group financial statements continued

21 Pension commitments

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

Following a comprehensive review process, in 2011/12 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure its long-term sustainability These changes resulted in a non-cash curtailment credit of £41 3 million

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 2012 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 nine and 18 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 1 million (2011 £4 5 million)

(a) Financial assumptions

The valuation used has been based on the full valuation for AWGPS carried out as at 31 March 2011 (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 2012 The group contributed 21 2% of pensionable pay in the year and for the year ending 31 March 2013 the expected contribution rate is 12 5% In addition, the group paid £21 8 million in deficit reduction payments in the year and anticipates it will pay £21 6 million in 2013

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

	2012 % pa	2011 % pa
Discount rate	**4.8**	5 5
Inflation rate		
- RPI	**3.3**	3 4
- CPI	**2.5**	2 7
Increase to deferred benefits during deferment		
- RPI	**3.3**	3 4
- CPI	**2.5**	2 7
Increases to inflation related pensions in payment		
- RPI	**3.2**	3 5
- CPI	**2.5**	2 7
General salary increases[1]	**2.5/4.3**	4 4

[1] As a result of changes made to the benefits earned in the Anglian Water Pension Scheme that came into effect from 1 April 2012, pensionable salary increases for employees that are members of the Anglian Water Group Pension Scheme (AWGPS) are restricted to be no greater than the lower of RPI and 2 5% pa each year (for accruing benefits only) As the future pensionable salary increase (4 3% pa) and RPI price inflation (3 3% pa) are both above 2 5% pa at 31 March 2012, the 2 5% cap on future pensionable salary increases is assumed to apply Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3 5% pa over the period from 1 April 2012 to retirement or earlier leaving

	2012	2011
Longevity at age 65 for current pensioners (years)		
Men	**23.0**	23 5
Women	**25.2**	25 9
Longevity at age 65 for future pensioners (years)		
Men	**24.8**	25 5
Women	**27.2**	27 7

(b) Amounts recognised in the balance sheet

The long-term expected rate of return and the value of assets/(liabilities) in the scheme relating to the group at 31 March 2012 are

		AWGPS	**Unfunded pensions**	**Hartlepool**	**Total**
	Expected rate of return % pa	**Fair value £m**	**Fair value £m**	**Fair value £m**	**Fair value £m**
Equities	**6.3**	**63.6**	**n/a**	**3.1**	**66.7**
Corporate bonds	**4.6**	**395.5**	**n/a**	**-**	**395.5**
Gilts	**3.3**	**390.5**	**n/a**	**14.4**	**404.9**
Property	**5.3**	**42.3**	**n/a**	**-**	**42.3**
Alternatives	**5.3**	**36.8**	**n/a**	**-**	**36.8**
Other	**0.5**	**17.4**	**n/a**	**-**	**17.4**
Total assets		**946.1**	**n/a**	**17.5**	**963.6**
Fair value of scheme liabilities		**(962.1)**	**(45.6)**	**(17.9)**	**(1,025.6)**
Deficit in the scheme		**(16.0)**	**(45.6)**	**(0.4)**	**(62.0)**
Related deferred tax asset		**3.8**	**11.0**	**0.1**	**14.9**
Net pension liability		**(12.2)**	**(34.6)**	**(0.3)**	**(47.1)**

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

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value £m	Fair value £m	Fair value £m	Fair value £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
Total assets		874 4	n/a	14 5	888 9
Fair value of scheme liabilities		(921 6)	(44 3)	(15 7)	(981 6)
Deficit in the scheme		(47 2)	(44 3)	(1 2)	(92 7)
Related deferred tax asset		12 3	11 5	0 3	24 1
Net pension liability		(34 9)	(32 8)	(0 9)	(68 6)

Notes to the group financial statements continued

21 Pension commitments continued

(c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2011	**(921 6)**	**(44.3)**	**(15.7)**	**(981 6)**
Current service cost	**(10.5)**	**-**	**(0.2)**	**(10 7)**
Past service cost	**(0.9)**	**-**	**-**	**(0.9)**
Curtailment	**41.3**	**-**	**-**	**41.3**
Members' contributions	**(3.5)**	**-**	**(0.1)**	**(3 6)**
Interest cost	**(50 2)**	**(2.4)**	**(0.9)**	**(53.5)**
Benefits paid	**33.2**	**2 6**	**0.4**	**36.2**
Actuarial loss	**(49.9)**	**(1.5)**	**(1.4)**	**(52.8)**
At 31 March 2012	**(962.1)**	**(45 6)**	**(17.9)**	**(1,025 6)**

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2010	(943 1)	(48 9)	(16 5)	(1,008 5)
Current service cost	(10 8)	-	(0 2)	(11 0)
Past service cost	(0 8)	-	-	(0 8)
Members' contributions	(3 6)	-	(0 1)	(3 7)
Interest cost	(52 5)	(2 7)	(0 9)	(56 1)
Benefits paid	31 1	2 6	0 4	34 1
Actuarial gain	58 1	4 7	1 6	64 4
At 31 March 2011	(921 6)	(44 3)	(15 7)	(981 6)

(d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2011	**874.4**	**-**	**14.5**	**888 9**
Expected return on scheme assets	**50.1**	**-**	**0 7**	**50 8**
Members' contributions	**3.5**	**-**	**0 1**	**3.6**
Employer's contributions	**35.2**	**2.6**	**0.5**	**38.3**
Benefits paid	**(33.2)**	**(2 6)**	**(0.4)**	**(36.2)**
Actuarial gain	**16.1**	**-**	**2.1**	**18.2**
At 31 March 2012	**946.1**	**-**	**17.5**	**963.6**

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2010	798 9	-	13 5	812 4
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
At 31 March 2011	874 4	-	14 5	888 9

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 £69 0 million (2011 £68 6 million)

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2012				
Total actuarial (losses)/gain recognised	**(33.8)**	**(1.5)**	**0.7**	**(34.6)**
2011				
Total actuarial gains recognised	79 6	4 7	1 9	86 2

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £180 4 million (2011 cumulative losses of £145 8 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**
2012 profit and loss account				
Current service cost	**(10.5)**	-	**(0 2)**	**(10.7)**
Past service cost	**(0.9)**	-	-	**(0.9)**
Pension curtailment (see note 4)	**41.3**	-	-	**41.3**
Credited/(charged) to operating profit (see note 10)	**29.9**	-	**(0.2)**	**29.7**
Expected return on pension scheme assets	**50.1**	-	**0.7**	**50.8**
Interest on pension scheme liabilities	**(50.2)**	**(2.4)**	**(0 9)**	**(53.5)**
Amount charged to other finance charges (see note 7)	**(0.1)**	**(2.4)**	**(0.2)**	**(2.7)**
Credited/(charged) to profit on ordinary activities before taxation	**29.8**	**(2.4)**	**(0.4)**	**27.0**

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2011 profit and loss account				
Current service cost	(10 8)	-	(0 2)	(11 0)
Past service cost	(0 8)	-	-	(0 8)
Charged to operating profit (see note 10)	(11 6)	-	(0 2)	(11 8)
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)
Amount charged to other finance charges (see note 7)	(6 4)	(2 7)	(0 2)	(9 3)
Charged to profit on ordinary activities before taxation	(18 0)	(2 7)	(0 4)	(21 1)

(g) Historical information

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit obligation	**(1,025.6)**	(981 6)	(1,008 5)	(773 4)	(838 0)
Plan assets	**963.6**	888 9	812 4	674 6	751 2
Deficit	**(62.0)**	(92 7)	(196 1)	(98 8)	(86 8)
Experience adjustments on plan assets	**18.2**	21 8	96 0	(121 7)	(44 4)
Experience adjustments on plan liabilities	**33.8**	12 2	(19 0)	12 9	(37 2)

22 Commitment under operating leases

At 31 March 2012 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			
	2012		2011	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**-**	**0.2**	0 2	0 6
Within two and five years	**1.2**	**0 6**	0 7	1 2
After five years	**1.8**	**-**	1 9	-
	3.0	**0.8**	2 8	1 8

23 Called up share capital

	Group and company	
	2012 £m	2011 £m
Allotted, issued and fully paid		
10 million (2011 10 million) ordinary shares of £1 each	**10.0**	10 0

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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 2011	10.0	1,326.8	1,336.8
Total recognised gains and losses relating to the year	-	234 9	234.9
Dividends paid and committed	-	(483 6)	(483.6)
At 31 March 2012	10.0	1,078.1	1,088.1

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2011	10.0	1,282.5	1,292.5
Profit for the financial year	-	259.6	259.6
Actuarial loss recognised on the pension schemes	-	(34.6)	(34.6)
Current tax relating to the actuarial loss on the pension schemes	-	6.3	6.3
Movement on deferred tax relating to the actuarial loss on the pension schemes	-	2.7	2.7
Impact of change in tax rate on deferred tax on pension schemes	-	0.1	0.1
Dividends paid and committed	-	(483 6)	(483.6)
At 31 March 2012	10.0	1,033.0	1,043.0

25 Contingencies

At 31 March 2012 £142 5 million (2011 £140 5 million) of Advance Corporation Tax (ACT) has been surrendered to the company by AWG Group Limited but remains unutilised As part of the financial restructuring in 2002, the company is required to pay AWG Group Limited on utilisation of ACT The amount recognised for payment to AWG Group Limited for the utilisation of ACT has reduced to £4 0 million as at 31 March 2012 (2011 £10 9 million) 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 2012 amounted to £5,729 8 million (2011 £5,364 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 2012

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

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

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 The house was sold by the company during the year to 31 March 2012

During the year, Anglian Water Services Financing Plc issued two 10-year US dollar private placements through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 25 and 50 basis points, for these transactions, equating to a total of US$2,450,000

At the balance sheet date Key Management held various bonds issued by the group totalling £0 4 million (2011 £0 2 million)

27 Events after balance sheet date

The final dividend for 2011/12 of £86 0 million was approved by the board on 1 June 2012

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 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

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 2012 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 91 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the 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 2012 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

John Maitland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Birmingham
1 June 2012

Regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 131 to 157 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 160

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Statement of Directors' responsibilities for regulatory information

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

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

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

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

a) So far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware, and

b) He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Notes on regulatory accounts

1 General

The company's activities are regulated by the conditions of a Licence granted to the company by the Secretary of State for the Environment With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function, these business activities are referred to as non-appointed business (see note 3 on page 139)

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 132 and 134 A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 144 and 145 Other current cost disclosures appear on pages 146 to 156 Additional information required by the Licence is shown on pages 136 to 143

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 135

2 Protection of the regulated business

(a) In the opinion of the Directors, the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)

(b) In the opinion of the Directors, the company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to carry out the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)

(c) In the opinion of the Directors, all contracts entered into with any associate company include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker

3 Arm's-length trading

In the opinion of the Directors, the company was in compliance with paragraph 3 1 of Condition F of the Licence throughout the year

Regulatory historical cost profit and loss account

for the year ended 31 March

	2012			2011		
	Appointed £m	Non-appointed £m	Total £m	Appointed £m	Non-appointed £m	Total £m
Turnover	**1,123.3**	**14.7**	**1,138.0**	1,079 3	13 0	1,092 3
Operating costs (before exceptional profit)	**(426.9)**	**(7.4)**	**(434.3)**	(392 2)	(6 5)	(398 7)
Historical cost depreciation	**(253.7)**	**(0.5)**	**(254.2)**	(248 1)	(0 4)	(248 5)
Exceptional operating profit	**41.3**	**-**	**41.3**	-	-	-
Operating income	**1.3**	**-**	**1.3**	2 2	-	2 2
Operating profit	**485.3**	**6.8**	**492.1**	441 2	6 1	447 3
Net interest payable	**(188.4)**	**-**	**(188.4)**	(152 8)	-	(152 8)
Profit on ordinary activities before taxation	**296.9**	**6.8**	**303.7**	288 4	6 1	294 5
Taxation						
- Current tax	**(29.4)**	**(1.8)**	**(31.2)**	(12 1)	(1 7)	(13 8)
- Deferred tax	**(12.9)**	**-**	**(12.9)**	(15 1)	-	(15 1)
Profit on ordinary activities after taxation	**254.6**	**5.0**	**259.6**	261 2	4 4	265 6
Dividends	**(478.6)**	**(5.0)**	**(483.6)**	(443 7)	(4 4)	(448 1)
Transfer from reserves	**(224.0)**	**-**	**(224.0)**	(182 5)	-	(182 5)

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

for the year ended 31 March

	2012 £m	2011 £m
Profit on ordinary activities after taxation	**254.6**	261 2
Actuarial (loss)/gain recognised on the pension schemes	**(34.6)**	86 2
Current tax relating to the actuarial loss on the pension schemes	**6.3**	-
Movement on deferred tax relating to the actuarial loss/(gain) on the pension schemes	**2.7**	(24 1)
Impact of change in tax rate on deferred tax on pension schemes	**0 1**	0 3
Total recognised gains and losses for the year	**229.1**	323 6

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Regulatory historical cost balance sheet

as at 31 March

	2012			2011		
	Appointed £m	Non-appointed £m	Total £m	Appointed £m	Non-appointed £m	Total £m
Fixed assets						
Tangible assets	**4,754.4**	**2.6**	**4,757.0**	4,630 2	1 3	4,631 5
Investments	**1,609.1**	**-**	**1,609.1**	1,609 1	-	1,609 1
Total fixed assets	**6,363.5**	**2.6**	**6,366.1**	6,239 3	1 3	6,240 6
Current assets						
Stocks	**9.2**	**-**	**9.2**	9 6	-	9 6
Debtors	**372.4**	**-**	**372.4**	372 3	-	372 3
Cash at bank and in hand	**142.0**	**1.8**	**143.8**	109 0	1 7	110 7
Investments and short-term deposits	**512.3**	**-**	**512.3**	406 2	-	406 2
Infrastructure renewals prepayment	**55.2**	**-**	**55.2**	47 3	-	47 3
Total current assets	**1,091.1**	**1.8**	**1,092.9**	944 4	1 7	946 1
Creditors: amounts falling due within one year						
Short-term borrowings	**(213.9)**	**-**	**(213.9)**	(141 4)	-	(141 4)
Other creditors	**(440.6)**	**(2 6)**	**(443.2)**	(364 4)	(1 3)	(365 7)
Corporation tax payable	**(76.4)**	**(1.8)**	**(78.2)**	(60 7)	(1 7)	(62 4)
Total creditors	**(730.9)**	**(4.4)**	**(735.3)**	(566 5)	(3 0)	(569 5)
Net current assets	**360.2**	**(2.6)**	**357.6**	377 9	(1 3)	376 6
Total assets less current liabilities	**6,723.7**	**-**	**6,723.7**	6,617 2	-	6,617 2
Creditors: amounts falling due after more than one year						
Loans and other borrowings	**(5,426.4)**	**-**	**(5,426.4)**	(5,047 0)	-	(5,047 0)
Other creditors	**(4.0)**	**-**	**(4.0)**	(10 9)	-	(10 9)
Total creditors	**(5,430.4)**	**-**	**(5,430.4)**	(5,057 9)	-	(5,057 9)
Provisions for liabilities and charges						
Deferred tax provision	**(32.0)**	**-**	**(32.0)**	(33 1)	-	(33 1)
Other provisions	**(31.0)**	**-**	**(31.0)**	(26 2)	-	(26 2)
Deferred income - grants and contributions	**(140.2)**	**-**	**(140.2)**	(138 9)	-	(138 9)
Defined benefit pension scheme liabilities	**(47.1)**	**-**	**(47.1)**	(68 6)	-	(68 6)
	(250.3)	**-**	**(250.3)**	(266 8)	-	(266 8)
Net assets employed	**1,043.0**	**-**	**1,043.0**	1,292 5	-	1,292 5
Capital and reserves						
Called up share capital	**10.0**	**-**	**10.0**	10 0	-	10 0
Profit and loss account	**1,033.0**	**-**	**1,033 0**	1,282 5	-	1,282 5
Capital and reserves	**1,043.0**	**-**	**1,043.0**	1,292 5	-	1,292 5

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

	2012 Statutory UK GAAP £m	2012 Regulatory accounts £m	Explanation
Profit and loss account			
Operating profit	**492.1**	**492.1**	No difference
Profit before tax	**303.7**	**303.7**	No difference
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	**4,812.2**	**4,757.0**	The difference of £55 2 million is attributable to the infrastructure renewals prepayment which is excluded from the fixed asset 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	-	**55.2**	
Current assets			
Investments and short-term deposits	**133.2**	**512.3**	Deposits with a maturity of greater than one day but less than three months of £3791 million is shown as cash at bank and in hand within the statutory accounts but is shown as investment in the regulatory accounts
Cash at bank and in hand	**522.9**	**143.8**	
Deferred income - grants and contributions			
Short-term and long-term other creditors	**(140.2)**	-	Deferred grants and contributions within the statutory accounts are analysed between creditors amounts falling due within one year (£8 1 million) and amounts falling due after more than one year (£132 1 million) This is in contrast to the regulatory accounts, which show total deferred grants and contributions of £140 2 million within provisions for liabilities and charges
Provisions for liabilities and charges	-	**(140.2)**	

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 131, 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 The identity of the occupier is ascertained by either contact initiated from the occupier, completion of a questionnaire sent out by the company to the premises, a visit by a customer services representative or searches of publically available property data Unoccupied properties are non-chargeable and therefore no billing is raised and no turnover recognised The status of a property as unoccupied/void is confirmed by reading of the meter to ascertain changes in consumption or in relation to unmeasured properties through providing a questionnaire for completion and return by any occupier plus an inspection where considered necessary

(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 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 salaries for the Managing Director and his direct reports are 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 2012 the results against the company performance measures resulted in the following assessment

Performance measure	2012 Achieved %	2012 Target %	2012 Achievement	Impact on bonus
Financial Performance	**55.0**	**55.0**	Stretch target achieved	Full payout of this element
Capital Delivery Index	**15 0**	**15.0**	Stretch target achieved	Full payout of this element
Overall Performance Assessment (OPA)	**6.4**	**10.0**	Performance was just higher than base but below stretch target	Partial payout - just above base
SIM	**12.0**	**20.0**	Remuneration Committee assessed base target achieved (see note[1] below)	Partial payout - base level
Total	**88.4**	**100.0**		

[1] The overall SIM target has two parts - Anglian Water's score in Ofwat's customer satisfaction survey (the qualitative part), and the level of customer contacts which indicate poor services, such as written complaints and telephone calls classed as unwanted (the quantitative part) On the customer satisfaction survey, Anglian Water came second among water and waste water companies Companies' overall SIM scores, which include the quantitative part, had not been published when the accounts were finalised The Remuneration Committee has therefore approved a payment at base level reflecting the qualitative ranking and significant improvement compared to the prior year on our customer contact quantitative score Later in the year, when overall SIM scores are available for all water and waste water companies, the Committee will consider whether this part of the bonus should be adjusted either by a further payment or, should the results warrant it, a clawback of bonus already paid

The performance assessments for Mr Simpson and Mr Longhurst relating to the regulated business are based on 91 94% rather than the 88 4% 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

Additional information required by the licence continued

2 Link between Directors' pay and standards of performance continued

Annual performance related bonuses linked to the standards of performance of the company, and paid by the company to Directors are as follows

	2012 £'000	2011 £'000
P Simpson	**397.5**	377 5
S Longhurst	**236.2**	250 9
C Newsome	**162.9**	160 1
J Spencer	**82.1**	79 5

For 2012/13 annual performance bonuses, the company performance will be measured based on Financial performance, Capital delivery index, basket of Operational Performance Metrics, Service Incentive Mechanism (SIM) Base and Stretch targets have been set by the Remuneration Committee

Long-term incentives

During the year, the following Directors received benefits under the 2009 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 These measures may vary from scheme to scheme

The Remuneration Committee assessed performance against these targets at 90% compared with 57% for the 2008 scheme This resulted in the following payments to Directors

	2012 £'000	2011 £ 000
P Simpson	**229.7**	138 1
C Newsome	**132.7**	75 3
J Spencer	**117.5**	70 6

Performance measure	2009 Achieved %	2009 Target %
Base Business Plan	20	20
Overall Performance Assessment (OPA)/SIM	10	15
Opex Relative Efficiency	5	10
Capital Efficiency	15	15
Return on Investment	40	40
Detractors	-	-
Total	90	100

The long-term incentive scheme for Mr Longhurst 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

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 £1 9 million were outstanding from other group companies at 31 March 2012 (2011 £42 2 million), of which £nil was owed to Anglian Water Services Financing Plc, the company's financing subsidiary (2011 £41 1 million)

An amount of £3 4 million was owed to Anglian Water Services Financing Plc, at 31 March 2012 (2011 £nil)

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Additional information required by the licence continued

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

Sums borrowed including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2012, were

Type of loan	Principal amount (iv) £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	246 0	2030	6 293
Fixed rate (iii)	210 7	2012/2037	7 882
Fixed rate	250 0	2022	5 837
Fixed rate (iii)	75 0	2017/2040	5 500
Fixed rate	394 0	2016	7 114
Fixed rate	25 0	2034	6 875
Fixed rate	63 6	2021	5 180
Fixed rate (iii)	100 0	2014/2024	6 750
Index-linked (i)	214 2	2020	4 125
Index-linked (i)	272 3	2032	3 070
Index-linked (i)	82 1	2032	3 070
Index-linked (i)	102 1	2024	3 666
Index-linked (i)	506 5	2035	2 400
Index-linked (i)	61 0	2046	1 700
Index-linked (i)	60 6	2046	1 700
Index-linked (i)	48 9	2056	1 7146
Index-linked (i)	61 2	2056	1 6777
Index-linked (i)	73 3	2049	1 7903
Index-linked (i)	121 4	2057	1 3784
Index-linked (i)	60 7	2056	1 3825
Index-linked (i)	85 5	2062	1 449
Index-linked (i)	57 1	2055	1 520
Index-linked (i)	56 3	2019	1 626
Index-linked (i)	55 4	2020	1 300
Index-linked (i)	141 7	2045	2 262
Index-linked (i)	75 4	2027	0 530
Index-linked (i)	75 4	2027	0 790
Floating rate	453 2	2013	LIBOR plus 0 9775
Floating rate	250 0	2015	LIBOR plus 0 375
Floating rate (iii)	75 0	2017/2040	LIBOR plus 0 682
Floating rate	100 0	2057	LIBOR plus 0 340
Floating rate (iii)	65 9	2018/2037	LIBOR plus 0 530
Floating rate	110 0	2043	LIBOR plus 0 850
Floating rate	25 1	2038	LIBOR plus 1 130
Floating rate	99 1	2021	LIBOR plus 0 8875
Floating rate	197 1	2021	LIBOR plus 2 64056
Sub total carried over to next page	5,450 8		

Type of loan	Principal amount (iv) £m	Repayment date	Interest rate %
Sub total brought forward	5,450 8		
Index-linked swaps (ii)	78 5	2013	-
Index-linked swaps (ii)	16 0	2024	-
Index-linked swaps (ii)	18 5	2030	-
Index-linked swaps (ii)	19 8	2057	-
Index-linked swaps (ii)	9 4	2059	-
Index-linked swaps (ii)	7 0	2043	-
Swaption	-	2046	-
Swaption	-	2046	-
	5,600.0		

LIBOR is the London Inter Bank Offer Rate

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

(ii) 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

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

(iv) All loans are presented on a post-hedge basis to reflect the effect of the related swaps

(b) Dividends payable
A dividend of £478 6 million is payable for the year (2011 £443 7 million) Of this dividend, £193 6 million (2011 £193 1 million) was paid/committed 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 139) 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 2012 amounted to £5,729 8 million (2011 £5,364 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 2012 (2011 £nil)

Additional information required by the licence continued

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

(d) Supply of services
Recharges by the appointee to associated companies

Nature of transaction	Company	Terms of supply	Value £m
Legal	AWG Group Limited	Actual costs	0 2
Human resources and payroll charges	AWG Group Limited	Actual costs	0 7
Corporate responsibility and communications	AWG Group Limited	Actual costs	0 7
Treasury charges	AWG Group Limited	Actual costs	0 5
Laboratory charges	AWG Group Limited	Actual costs	0 1
IT charges	AWG Group Limited	Actual costs	0 1
Accommodation charges	AWG Group Limited	Actual costs	0 2
Land rental	Alpheus Environmental Ltd	Actual costs	0 1
Trade effluent charges	Alpheus Environmental Ltd	Actual costs	0 2
Sewerage and tankering and transport services	AWG Group Limited and Alpheus Environmental Ltd	Actual costs	0 3

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 Group Limited	-	Time apportionment	0 5
Internal audit services	AWG Group Limited	-	Negotiated	0 4
Insurance administration	AWG Group Limited	-	Negotiated	0 6
Taxation services	AWG Group Limited	-	Negotiated	0 2
External audit services	AWG Group Limited	-	Negotiated	0 2
Pension admin, advice and audit	AWG Group Limited	-	Pass through	0 1
Building rental	AWG Group 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	1 2	Actual costs	0 8
				3 3

(e) Charitable and political donations
During the year, Anglian Water donated £40,000 (2011 £40,000) to WaterAid, its recognised charity

No political donations were made (2011 £nil)

The company made available £0 57 million (2011 £0 75 million) to the Anglian Water Assistance Fund, which paid a total of £0 6 million (2011 £0 6 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 K3 1 of the Licence throughout the year

Current cost profit and loss account for the appointed business

for the year ended 31 March

Notes		2012 Appointed £m	2011 Appointed £m
2	**Turnover**	**1,123.3**	1,079 3
4	Current cost operating costs	**(807 4)**	(758 1)
3	Operating income	**0.2**	0 8
	Exceptional operating profit	**41 3**	-
		357.4	322 0
3, 9	Working capital adjustment	**(2.8)**	(2 7)
	Current cost operating profit	**354.6**	319 3
	Net interest payable	**(188.4)**	(152 8)
9	Financing adjustment	**14.1**	21 1
	Current cost profit before taxation	**180.3**	187 6
	Current tax	**(29.4)**	(12 1)
	Deferred tax	**(12.9)**	(15 1)
	Current cost profit attributable to shareholder	**138.0**	160 4
	Dividends	**(478.6)**	(443 7)
8	**Current cost transfer from reserves**	**(340.6)**	(283 3)

The notes on pages 147 to 156 form part of these current cost financial statements

Current cost balance sheet for the appointed business

as at 31 March

Notes		2012 £m	2011 £m
	Fixed assets		
5	Tangible assets	**38,858.8**	29,689 5
	Third-party contributions since 31 March 1990	**(9,062.2)**	(915 4)
		29,796.6	28,774 1
6	Working capital	**40.1**	78 4
	Cash at bank and in hand	**142 0**	109 0
	Investments and short-term deposits	**512 3**	406 2
	Infrastructure renewals prepayment	**55.2**	47 3
	Net operating assets	**30,546.2**	29,415 0
	Non-operating assets and liabilities		
7	Short-term borrowings	**(213.9)**	(141 4)
	Non-trade debtors	**6.5**	45 1
	Non-trade creditors due within one year	**(106.7)**	(106 9)
	Investments - loan to group company	**1,609.1**	1,609 1
	Corporation tax payable	**(76.4)**	(60 7)
	Total non-operating assets and liabilities	**1,218.6**	1,345 2
	Creditors: amounts falling due after more than one year		
7	Loans and other borrowings	**(5,426.4)**	(5,047 0)
	Other creditors	**(4 0)**	(10 9)
	Total creditors falling due after more than one year	**(5,430.4)**	(5,057 9)
	Provisions for liabilities and charges		
	Deferred tax	**(32.0)**	(33 1)
	Defined benefit pension scheme liabilities	**(47.1)**	(68 6)
	Other provisions	**(31.0)**	(26 1)
	Total provisions	**(110.1)**	(127 8)
	Net assets	**26,224.3**	25,574 5
	Capital and reserves		
	Called up share capital	**10.0**	10 0
8	Profit and loss account	**(194.9)**	171 2
9	Current cost reserve	**26,409.2**	25,393 3
	Total capital and reserves	**26,224.3**	25,574 5

The notes on pages 147 to 156 form part of these current cost financial statements

The financial statements were approved by the board of Directors on 1 June 2012 and signed on its behalf by

Peter Simpson
Director

Scott Longhurst
Director

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Current cost cash flow statement

for the year ended 31 March

Notes		2012 Appointed £m	2012 Non-appointed £m	2012 Total £m	2011 Appointed £m	2011 Non-appointed £m	2011 Total £m
10(a)	**Net cash inflow from operating activities**	**654.7**	**6.8**	**661.5**	626 0	6 1	632 1
	Returns on investment and servicing of finance						
	Interest received	**197.3**	-	**197.3**	197 0	-	197 0
	Interest paid	**(229.2)**	-	**(229.2)**	(222 0)	-	(222 0)
	Interest element of finance lease rental payments	**(3.1)**	-	**(3.1)**	(3 3)	-	(3 3)
	Net cash outflow from returns on investments and servicing of finance	**(35.0)**	-	**(35 0)**	(28 3)	-	(28 3)
	Taxation						
	Corporation tax paid	-	**(1.8)**	**(1.8)**	(0 5)	(1 7)	(2 2)
	Payments to other Anglian Water Group Limited group undertakings	**(16.2)**	-	**(16.2)**	(25 1)	-	(25 1)
	Taxation	**(16.2)**	**(1.8)**	**(18.0)**	(25 6)	(1 7)	(27 3)
	Capital expenditure and financial investment						
	Gross cost of purchase of tangible fixed assets	**(274 7)**	-	**(274.7)**	(203 7)	-	(203 7)
	Receipts of grants and contributions	**22.7**	-	**22.7**	24 0	-	24 0
	Infrastructure renewals expenditure	**(83.9)**	-	**(83.9)**	(73 6)	-	(73 6)
	Disposal of fixed assets	**1.4**	-	**1.4**	2 3	-	2 3
	Net cash outflow from investing activities	**(334.5)**	-	**(334.5)**	(251 0)	-	(251 0)
	Equity dividends paid	**(478.1)**	**(5.0)**	**(483.1)**	(443 7)	(4 4)	(448 1)
	Management of liquid resources						
	Net cash (outflow)/inflow from management of liquid resources	**(62.0)**	-	**(62.0)**	22 2	-	22 2
	Net cash outflow before financing	**(271.1)**	-	**(271.1)**	(100 4)	-	(100 4)
	Financing						
	Increase in loans	**509.8**	-	**509.8**	130 0	-	130 0
	Repayment of amounts borrowed	**(202 9)**	-	**(202.9)**	(80 5)	-	(80 5)
	Capital element of finance lease rentals	**(2.8)**	-	**(2.8)**	(2 5)	-	(2 5)
	Net cash inflow from financing	**304.1**	-	**304.1**	47 0	-	47 0
	Increase/(decrease) in cash	**33 0**	-	**33.0**	(53 4)	-	(53 4)

The notes on page 156 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 136 as required by RD 05/08

(c) Tangible fixed assets

Tangible fixed assets have been valued in accordance with Regulatory Accounting Guideline 1 04 (Guideline for accounting for current costs and regulatory capital values) on a modern equivalent asset (MEA) basis

Depreciation is charged over the estimated remaining economic life of the asset Infrastructure assets are not depreciated

Additions during the year are taken at their historic cost values Disposals are stated at the value of the replacement assets

(i) Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use as part of the periodic Asset Management Plan (AMP) reviews and are expressed in real terms by indexation using the Retail Price Index (RPI) thereafter

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic AMP reviews by adjusting for inflation or deflation as measured by changes in the RPI The unamortised portion of third-party contributions received is deducted in arriving at net operating assets (as described below)

(ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, on an MEA basis, determined principally on the basis of data provided by the AMP

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place In the intervening years, values are restated to take account of changes in the general level of inflation or deflation, as measured by changes in the RPI over the year

(iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement costs Between periodic AMP reviews, values are restated for inflation or deflation as measured by changes in the RPI

(iv) Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence

Notes to the current cost financial statements continued

1 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

2 Turnover for the appointed business

	2012			2011		
	Water service £m	**Sewerage service £m**	**Appointed total £m**	Water service £m	Sewerage service £m	Appointed total £m
Measured	**289.4**	**411.8**	**701.2**	265 0	389 3	654 3
Unmeasured	**127.3**	**199.3**	**326.6**	129 2	207 2	336 4
Trade effluent	**-**	**8.4**	**8 4**	-	7 7	7 7
Large user and special agreement	**33.9**	**31.6**	**65.5**	31 8	28 8	60 6
Non-potable large user and special agreement	**11.9**	**-**	**11.9**	11 4	-	11 4
Rechargeable works	**0.5**	**-**	**0 5**	0 4	-	0 4
Bulk supplies/inter-company payments	**6.7**	**1.6**	**8.3**	6 1	1 7	7 8
Third-party services (including non-potable water)	**19.1**	**1.6**	**20.7**	17 9	1 7	19 6
Other sources	**0.9**	**-**	**0.9**	0 8	(0 1)	0 7
Total turnover	**470.6**	**652.7**	**1,123.3**	444 7	634 6	1,079 3

3 Operating income and working capital adjustment for the appointed business

	2012			2011		
	Water service £m	**Sewerage service £m**	**Appointed total £m**	Water service £m	Sewerage service £m	Appointed total £m
Current cost profit/(loss) on disposal of fixed assets	**0.2**	**-**	**0.2**	1 5	(0 7)	0 8
Working capital adjustment	**(1.4)**	**(1.4)**	**(2.8)**	(1 4)	(1 3)	(2 7)

Notes to the current cost financial statements continued

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

2012 Service analysis

	Water service			Sewerage service				
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal subtotal £m	Sewerage service subtotal £m
Direct costs:								
Employment costs	8.2	7.5	15.7	10.9	20.3	13.0	33.3	44.2
Power	13.7	9.5	23.2	3.8	19.0	0.3	19.3	23 1
Hired and contracted services	4.0	13.4	17.4	9.4	12 0	12.8	24.8	34.2
Materials and consumables	4.9	2.3	7.2	3.1	9.1	14.8	23.9	27.0
Services charges	12.8	-	12.8	1.1	5 6	-	5 6	6 7
Bulk supply imports	1.2	-	1.2	-	-	-	-	-
Other direct costs	0.2	0.7	0.9	1.2	0 5	0.3	0.8	2 0
Total direct costs	45.0	33.4	78.4	29.5	66.5	41.2	107.7	137.2
General and support expenditure	11.9	10.4	22.3	6.9	15 3	9.5	24.8	31.7
Total functional expenditure	56.9	43.8	100.7	36.4	81.8	50.7	132.5	168 9
Business activities:								
Customer services			15.4					19 4
Scientific services			6.8					4 0
Other business activities			2.1					3 7
Total business activities			24.3					27.1
Rates			38 5					23.6
Doubtful debts			14.9					19.0
Exceptional items			-					-
Total less third-party services			178.4					238 6
Third-party services			9 3					0.5
Total operating costs			187 7					239.1
Capital costs:								
Infrastructure renewals charge	3.4	40.8	44.2	31.7	-	-	-	31.7
Depreciation[1] (allocated)	61.5	30.9	92.4	42.6	128.5	22.9	151.4	194.0
Amortisation of deferred grants			(3.1)					(5.0)
Business activities depreciation[1] (non-allocated)			8.4					12.7
Capital maintenance excluding third-party services			141.9					233 4
Third-party services - capital maintenance			4.1					1.2
Total capital maintenance			146 0					234.6
Total operating costs[2]			333.7					473 7
Current cost accounting (modern equivalent asset values)								
Service activities	1,280.1	7,408.4	8,688.5	28,270.5	1,674.5	225.3	1,899.8	30,170 3
Business activities			(23.9)					(35.8)
Service totals			8,664.6					30,314.5
Service assets for third parties			(52.6)					(6 9)
Total			8,612 0					30,127 6

[1] On a current cost basis
[2] Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £19 8 million This is split £13 2 million water distribution and £6 6 million sewerage

2011 Service analysis

	Water service			Sewerage service				
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal subtotal £m	Sewerage service subtotal £m
Direct costs:								
Employment costs	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
Total direct costs	42 5	30 5	73 0	24 8	63 0	37 9	100 9	125 7
General and support expenditure	11 5	10 0	21 5	5 9	14 0	9 2	23 2	29 1
Total functional expenditure	54 0	40 5	94 5	30 7	77 0	47 1	124 1	154 8
Business activities:								
Customer services			15 3					19 6
Scientific services			6 5					3 7
Other business activities			2 1					3 7
Total business activities			23 9					27 0
Rates			31 4					19 6
Doubtful debts			14 9					18 9
Exceptional items			-					-
Total less third-party services			164 7					220 3
Third-party services			6 7					0 6
Total operating costs			171 4					220 9
Capital costs:								
Infrastructure renewals charge	0 3	34 1	34 4	37 5	-	-	-	37 5
Depreciation[1] (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[1] (non-allocated)			7 8					11 7
Capital maintenance excluding third-party services			127 0					233 8
Third-party services - capital maintenance			3 9					1 1
Total capital maintenance			130 9					234 9
Total operating costs[2]			302 3					455 8
Current cost accounting (modern equivalent asset values)								
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)
Service totals			8,332 8					21,307 0
Service assets for third parties			(54 7)					(7 8)
Total			8,278 1					21,299 2

[1] On a current cost basis

[2] 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

Notes to the current cost financial statements continued

5 Fixed assets

	Specialised operational assets £m	Non-specialised operational properties £m	Infra-structure assets £m	Other tangible assets £m	Total £m
(a) Fixed assets by type - water service					
Gross replacement cost					
At 1 April 2011	2,835 5	18 5	7,120 4	210 8	10,185 2
RPI adjustment	101 1	0 7	254 2	7 7	363 7
Disposals	(9 0)	-	-	(0 6)	(9 6)
Additions	101 2	0 2	24 1	17 0	142 5
At 31 March 2012	**3,028.8**	**19.4**	**7,398.7**	**234.9**	**10,681.8**
Depreciation					
At 1 April 2011	(1,662 1)	(5 0)	-	(165 4)	(1,832 5)
RPI adjustment	(59 3)	(0 2)	-	(5 8)	(65 3)
Disposals	9 0	-	-	0 5	9 5
Charge for the year	(86 5)	(0 4)	-	(18 1)	(105 0)
At 31 March 2012	**(1,798.9)**	**(5 6)**	**-**	**(188.8)**	**(1,993 3)**
Net book value at 31 March 2012	**1,229.9**	**13.8**	**7,398.7**	**46.1**	**8,688.5**
Net book value at 31 March 2011	1,173 4	13 5	7,120 4	45 4	8,352 7
(b) Fixed assets by type - sewerage service					
Gross replacement cost					
At 1 April 2011	6,449 8	20 6	18,893 8	326 4	25,690 6
RPI adjustment	230 9	0 1	674 5	11 6	917 1
Disposals	(1 4)	(0 1)	-	(0 8)	(2 3)
Transfer of private sewers and drains[1]	-	-	8,100 0	-	8,100 0
Additions	128 3	-	27 2	25 4	180 9
At 31 March 2012	**6,807.6**	**20.6**	**27,695.5**	**362.6**	**34,886.3**
Depreciation					
At 1 April 2011	(4,107 6)	(5 3)	-	(240 9)	(4,353 8)
RPI adjustment	(146 6)	(0 1)	-	(8 8)	(155 5)
Disposals	0 3	-	-	0 8	1 1
Charge for the year	(180 5)	(0 2)	-	(27 1)	(207 8)
At 31 March 2012	**(4,434.4)**	**(5.6)**	**-**	**(276.0)**	**(4,716.0)**
Net book value at 31 March 2012	**2,373.2**	**15.0**	**27,695.5**	**86.6**	**30,170.3**
Net book value at 31 March 2011	2,342 2	15 3	18,893 8	85 5	21,336 8
(c) Fixed assets by type - total					
Gross replacement cost					
At 1 April 2011	9,285 3	39 1	26,014 2	537 2	35,875 8
RPI adjustment	332 0	0 8	928 7	19 3	1,280 8
Disposals	(10 4)	(0 1)	-	(1 4)	(11 9)
Transfer of private sewers and drains[1]	-	-	8,100 0	-	8,100 0
Additions	229 5	0 2	51 3	42 4	323 4
At 31 March 2012	**9,836.4**	**40.0**	**35,094.2**	**597.5**	**45,568 1**
Depreciation					
At 1 April 2011	(5,769 7)	(10 3)	-	(406 3)	(6,186 3)
RPI adjustment	(205 9)	(0 3)	-	(14 6)	(220 8)
Disposals	9 3	-	-	1 3	10 6
Charge for the year	(267 0)	(0 6)	-	(45 2)	(312 8)
At 31 March 2012	**(6,233.3)**	**(11.2)**	**-**	**(464.8)**	**(6,709.3)**
Net book value at 31 March 2012	**3,603.1**	**28.8**	**35,094.2**	**132.7**	**38,858.8**
Net book value at 31 March 2011	3,515 6	28 8	26,014 2	130 9	29,689 5

[1] In accordance with RAG 1 04 110 9 the estimated Modern Equivalent Asset Value 'MEAV' of the private sewers transferred to Anglian Water on 1 October 2011 has been included in the current cost accounts Using the best available data on the length of the private sewer network and the current replacement cost per metre, MEAV has been estimated at £8,100 million This has been accounted for as an increase in the total gross MEAV of fixed assets, with an equal increase in 'third party contributions' and therefore no change in current cost net assets The MEAV of the private sewers is expected to be reassessed at the time of the next regulatory price review

(d) In the preparation of its statutory financial statements, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as required by FRS 15 Tangible fixed assets However, for the purposes of the regulatory financial statements, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years A reconciliation to the tangible fixed assets shown in the statutory financial statements is set out below

	Tangible fixed assets £m
Cost	
At 31 March 2012 per regulatory financial statements	45,568 1
Adjustment to opening balance at 31 March	(37,087 1)
Infrastructure renewals expenditure capitalised in the year	83 9
At 31 March 2012 per statutory financial statements[2]	**8,564.9**
Grants and contributions	
At 31 March 2012 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(269 2)
At 31 March 2012 per statutory financial statements	**(269.2)**
Depreciation	
At 31 March 2012 per regulatory financial statements	(6,709 3)
Adjustment to opening balance at 31 March	3,301 7
Depreciation charge for infrastructure renewals expenditure	(75 9)
At 31 March 2012 per statutory financial statements[2]	**(3,483.5)**
Net book value	
At 31 March 2012 per regulatory financial statements	38,858 8
Adjustment to opening balance at 31 March	(34,054 6)
Infrastructure renewals expenditure capitalised in the year	83 9
Depreciation charge for infrastructure renewals expenditure	(75 9)
At 31 March 2012 per statutory financial statements[2]	**4,812.2**
Infrastructure renewals prepayment	
At 31 March 2012 per regulatory financial statements	55 2
Less infrastructure renewals prepayment	(55 2)
At 31 March 2012 per statutory financial statements	**-**

[2] The statutory financial statements include non-appointed fixed assets with net book value at 31 March 2012 of £2 6 million (2011 £1 3 million)

Notes to the current cost financial statements continued

6 Working capital

	2012 £m	2011 £m
Stocks	**9.2**	9 6
Trade debtors - measured household	**73.8**	76 3
Trade debtors - unmeasured household	**63.4**	61 1
Trade debtors - measured non-household	**19.0**	13 9
Trade debtors - unmeasured non-household	**0.9**	0 5
Other trade debtors	**19.4**	15 9
Measured income accrual	**173.1**	144 2
Prepayments and other debtors	**16.3**	15 3
Trade creditors	**(82.7)**	(56 1)
Deferred income - customer advance receipts	**(121.0)**	(115 9)
Short-term capital creditors	**(87.6)**	(55 5)
Accruals and other creditors	**(43.7)**	(30 9)
Total working capital	**40.1**	78 4

7 Net debt analysis

Interest rate risk profile at 31 March 2012

	Total £m	Index-linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	**(213.9)**	-	-	**(213 9)**
Between one and two years	**(635 5)**	**(336.5)**	**(195.2)**	**(103.8)**
Between two and five years	**(661.1)**	**(249.8)**	-	**(411.3)**
Between five and 20 years	**(1,843.4)**	**(461.5)**	**(195.5)**	**(1,186.4)**
In more than 20 years	**(2,286.4)**	**(2,102.2)**	**(85 0)**	**(99.2)**
Total borrowings	**(5,640.3)**	**(3,150.0)**	**(475.7)**	**(2,014.6)**
Cash	**142.0**			
Short-term deposits	**512.3**			
Net debt	**(4,986.0)**			

Interest rate risk profile at 31 March 2011	Total £m	Index-linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
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)
Total borrowings	(5,188 4)	(2,850 8)	(280 1)	(2,057 5)
Cash	109 0			
Short-term deposits	406 2			
Net debt	(4,673 2)			

8 Current cost profit and loss account

	2012 £m	2011 £m
At beginning of the year	**171.2**	(457 9)
Transfer from profit and loss account for the year	**(340.6)**	(283 3)
	(169.4)	(741 2)
Actuarial (loss)/gain recognised on the pension schemes	**(34.6)**	86 2
Current tax relating to the actuarial loss on the pension schemes	**6.3**	-
Movement on deferred tax relating to the actuarial loss/(gain) on the pension schemes	**2.7**	(24 1)
Impact of change in tax rate on deferred tax on pension schemes	**0.1**	0 3
Capital reduction	**-**	850 0
At end of year	**(194.9)**	171 2

9 Current cost reserve

	2012 £m	2011 £m
At beginning of the year	**25,393.3**	23,946 0
RPI adjustments		
- Fixed assets	**1,059.9**	1,511 2
- Working capital	**2.8**	2 7
- Financing	**(14 1)**	(21 1)
- Grants and third-party contributions	**(32.7)**	(45 5)
At end of year	**26,409.2**	25,393 3

Notes to the current cost financial statements continued

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

	2012 £m	2011 £m
Current cost operating profit	**354.6**	319 3
Working capital adjustment	**2.8**	2 7
Movement in working capital	**(14.9)**	(34 4)
Current cost depreciation	**304 7**	293 9
Current cost profit on sale of fixed assets	**(0.2)**	(0 8)
Infrastructure renewals charge	**75.9**	72 0
Difference between pension charge and cash contributions	**(26 7)**	(26 5)
Exceptional operating profit (non-cash item)	**(41.3)**	-
Net movement in provisions	**(0.2)**	(0 2)
Net cash inflow from operating activities	**654.7**	626 0

10(b) Analysis of net debt

	1 April 2011 £m	Cash flows £m	Non-cash movements £m	31 March 2012 £m
Cash	109.0	33.0	-	142.0
Deposits and investments	406.2	106.1	-	512.3
Finance leases due within one year	(2.9)	2.8	(3.3)	(3 4)
Finance leases due after one year	(62.1)	-	6.2	(55 9)
Other debt due within one year	(138.5)	138.5	(210.5)	(210.5)
Other debt due after one year	(4,984.9)	(442.3)	56.7	(5,370.5)
	(4,673.2)	(161.9)	(150 9)	(4,986.0)

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

Supplementary regulatory information

1 Regulatory capital value (RCV)

	2012 £m
RCV at 31 March 2011 as published in RD06/09	**5,868.6**
Indexation	**209.5**
RCV at 31 March 2011 in March 2012 prices	**6,078.1**
Capital expenditure (excluding IRE)	**481.3**
Infrastructure renewals expenditure (IRE)	**83.8**
Infrastructure renewals charge	**(79.6)**
Grants and contributions	**(35.4)**
Depreciation	**(256.4)**
Outperformance of regulatory assumptions (five years in arrears)	**(5.7)**
Closing RCV	**6,266.1**
Average RCV	**6,082.4**

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 2011/12 prices using an RPI factor of 240 8/220 7 (RPI at 31 March 2012/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 237 3/215 8 (average RPI for the year ended 31 March 2012/average RPI for the year ended 31 March 2010) The indices that have been used to inflate the RCVs to 2011/12 prices have been extracted from those published by Ofwat on its website

The table shows the RCV used in setting the price limits for 2011/12 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

Independent auditors' report

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 2012 on pages 131 to 156 (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

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Additional information required by the Licence and the notes to the current cost financial statements

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 WRSA, for our audit work, for this report or for the opinions we have formed

Respective responsibilities of the WSRA, the Directors and Auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 130, 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

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 page 147 to 148, the state of the Company's affairs at 31 March 2012 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 132 and 134 respectively 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 135

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 2012 on which we reported on 1 June 2012, 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 LLP
Chartered Accountants and Statutory Auditors

Birmingham
1 June 2012

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

BUSINESS REVIEW GOVERNANCE STATUTORY ACCOUNTS REGULATORY ACCOUNTS

Glossary of regulatory terms

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

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

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

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

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LED198/07/12

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