

Anglian Water Services Limited

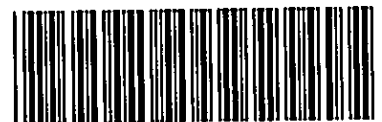
(Registered number 2366656)

Annual report and financial statements

For the year ended 31 March 2013

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COMPANIES HOUSE

**A NEW
APPROACH
TO OUR
REPORTING
THIS YEAR**

For the first time our Annual Report includes details of our financial, social and environmental performance during the year - all together in one integrated report.

Value creation extends far beyond the financial performance of our business. It includes our strategy for creating value over the long term and how we manage the business in a sustainable way. Creating value is also about our non-financial performance - how satisfied our customers are, our impact on the environment and how we contribute to the prosperity of our region. We recognise that to ensure the successful financial performance of our business over the long term, we must manage our resources and relationships well. Our report this year strives to demonstrate this.

PLATINUM BIG TICK AWARD

Anglian Water has been named as one of the top performers in this year's Business in the Community Responsible Business Awards. We received a Platinum Big Tick - achieving our highest ever score of 97%, and we have been shortlisted for 'Responsible Business of the Year' recognising us as a leader of responsible business in the UK.

The awards identify companies that are transforming their businesses to create a more sustainable future, looking at how businesses tackle biodiversity, environmental protection, waste reduction and climate change, as well as how they work with suppliers and take care of employees.

CONTENTS

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

P26

KEY
PERFORMANCE
INDICATORS

BUSINESS REVIEW

- 2 Chairman's welcome
- 3 Managing Director's statement
- 7 Our performance in 2012/13
- 8 Anglian Water at a glance
- 10 Highlights from the last year

OUR BUSINESS AND HOW WE CREATE SUSTAINABLE VALUE

- 12 A year of extremes
- 14 Our strategic focus
- 22 Who we are
- 26 Key performance indicators (KPIs)
- 28 How we work in harmony with the water cycle
- 29 How we work with those around us
- 30 How we deliver value
- 31 How we share the risks and value
- 32 Risk management overview
- 37 Managing our business through sustainability

OUR MARKETPLACE AND HOW WE ENGAGE WITH OUR STAKEHOLDERS

- 40 Water and wastewater industry overview
- 41 Regulators and the regulatory environment
- 43 Legislative and public policy environment
- 44 The business environment: competition in the water industry
- 45 Partnerships driving sustainability

HOW WE DELIVER OUR STRATEGIC PRIORITIES

- 47 A successful third year of AMP5
- 48 Securing and conserving water resources
- 52 Increasing the resilience and reliability of our water and wastewater services
- 62 Meeting the needs of our customers
- 72 Improving our efficiency and flexibility
- 75 Meeting the challenge of climate change
- 84 Planning and investing for growth
- 87 Improving the environment and enhancing biodiversity
- 91 Working for Anglian Water
- 98 Financial performance
- 103 Key Love Every Drop commitments and regulatory KPIs 2012/13

GOVERNANCE

- 106 Anglian Water Services Board of Directors
- 108 Corporate governance report
- 114 Audit Committee report
- 117 Remuneration report
- 132 Directors' report
- 135 Statement of Directors' responsibilities

137 STATUTORY ACCOUNTS

172 REGULATORY ACCOUNTS

- 203 Glossary of regulatory terms

P30

DELIVERING
VALUE

P108

CORPORATE
GOVERNANCE
REPORT

CHAIRMAN'S WELCOME

The underlying strength of the performance of Anglian Water this year has been made possible, to a significant extent, by the company's ability to adapt to new conditions and to the rapidly changing working environment.

“ For the first time we are presenting details of our financial, social and environmental performance together, with enhanced transparency of our corporate governance reporting in this one integrated report ”

By any standard this has been a year of unprecedented challenge. Continuing economic uncertainty, extremes of weather and changes to the industry's structural and regulatory environment have tested the day-to-day operation and offered the opportunity for strategic leadership as the wider industry prepares to enter a new regulatory cycle. The business has successfully risen to these challenges as the detail contained in this Annual Report will demonstrate.

Customer expectations of the business are justifiably high, and considerable progress has been made this year to bring customers even closer to the heart of the operation and to future business planning. Aided by continually improving levels of service, our responsiveness to customers has contributed to Anglian Water's industry-leading performance this year, of which the whole business can be proud.

This year we take a step forward in our annual reporting. For the first time we are presenting details of our financial, social and environmental performance together, with enhanced transparency of our corporate governance reporting in this one integrated report. We want to demonstrate the value that Anglian Water delivers to all our customers, to the communities we serve, to the environment in which we operate and to our employees, business partners and the wider economy.

Delivering value is as much about securing our long-term financial future as it is about the non-financial performance of the business. We recognise that to secure our long-term future, we must manage our resources and relationships well. The delivery of an exceptional public water service depends on it.

The leadership Anglian Water provides and the strong performance it delivers are thanks to Peter Simpson and his team. The underlying strength and capability of the company gives every reason to be confident about the future.

Sir Adrian Montague CBE, Chairman

MANAGING DIRECTOR'S STATEMENT

The challenge we set ourselves at the start of the year was to anticipate the threat of a third successive dry winter, and to assess the potential impact on customers and on our day-to-day operation in what is already the driest part of the UK. The subsequent change in weather, to the wettest period on record, replenished water supplies across the region, but the challenge remained of coping with the impact of severe and changeable weather.

Throughout, our priority has been to provide exceptional customer service. Heightened awareness of the consequences of severe dry or wet weather helped to better engage customers in the future of their water and wastewater services. This helped to encourage thousands of people to take part in our biggest-ever consultation with customers on our future business plan, as well as in our broader sustainability campaigns and activities under our Love Every Drop initiative.

More broadly, our focus has been to be innovative in securing long-term water supplies, to continue to support economic growth by investing in vital equipment and maintenance, to show solid evidence of delivery against our ambitious business goals, to help shape a viable future for the water industry, and with customers, to prepare a compelling business plan for the period 2015 to 2020.

I believe that our strong performance has met these challenges, despite the backdrop of unprecedented demands on the business during a year of uncertainty and change.

We ended the year in a strong financial position, as the industry leader on customer service, with our lowest ever level of leakage, our accident frequency rate at an all-time low, the award of Platinum Big Tick in Business in the Community's 2013 Corporate Responsibility Index and shortlisted for Responsible Company of the Year. We were also the first water company in the UK to receive the ISO 22301 certification for our

“ This year, our business has been tested in many exceptional circumstances. I believe we have emerged stronger and more resilient, with a renewed determination to meet the needs and expectations of customer. ”

Business Continuity Management System – a measure recommended by the Pitt Review in 2008 following the severe flooding of 2007.

We know that success is wholly dependent on us working with and collaborating with a wide range of others, so I am particularly grateful for the hard work of our employees and contractors, and for the help and support of our customers and extensive number of business partners from across the region.

Our financial results show a strong position, despite the challenging economic environment and the severe weather experienced during the year. Turnover was up 2.2% on the previous year. This reflects the regulatory price increase, partially offset by reductions in demand for commercial and household customers of approximately 4.4% on an aggregate basis. Operating costs for the year increased by 3.0% on the previous year due to a range of factors, including rate increases, private sewer transfer, drought response and inflationary pressures.

across the business. Underlying operating profit increased by 0.9% as a result of the small increase in turnover, largely offset by the increases in operating costs and depreciation.

Operating cost efficiencies achieved during the current regulatory period mean that we are able to absorb additional unfunded costs of £50 million without the need to pass that expenditure back to customers. This includes £20 million of operating costs spent or expected to be spent associated with the adoption of private sewers this AMP (Asset Management Plan – our five-year investment period), and £27 million of increased bad debt costs to date, relative to the regulatory determination.

Similarly, due to capital expenditure efficiencies achieved over the AMP we have been able to invest an additional £185 million in new schemes to benefit our customers. This includes £18 million of capital investment on keeping leakage at an all-time low level, and £35 million to protect our customers from the impact of future drought.

“Due to capital expenditure efficiencies achieved over the AMP we have been able to invest an additional £185 million in new schemes to benefit our customers.”

During the year we recognised that severe and changeable weather is fast becoming the 'new normal', so we have focused on helping to lead the industry-wide response through the National Drought Management Team, as well as ensuring our own business is resilient and able to respond effectively.

This is the fastest growing region in the UK and the most vulnerable to the impacts of climate change. Long-term security of water resources remains a top priority, it is fundamental to securing economic growth, to managing our flourishing environment, and to sustainable communities across the region.

With colleagues including those from Defra (Department for Environment, Food and Rural Affairs) and the Environment Agency (EA), local authorities and the farming and landowning community we helped take the lead on national water resource planning. For the longer-term future, we continue our work with the Cambridge Programme for Sustainability Leadership (CPSL), alongside government departments, non-governmental organisations, regulatory bodies, private companies and academia to lead innovative thinking on community-based water resourcing in individual river catchments.

Despite the impact of severe weather, we maintained our high level of water quality compliance at 99.96% and have achieved 100% beach bathing water compliance for the 11th year running. The success of our public health campaigns continues, which includes working with families in 22 high-priority areas across the region to reduce lead in drinking water.

Our water network has expanded to connect around half a million more homes since privatisation in 1989. Despite the growth of some 20% in the number of properties and businesses we serve, the amount of water supplied today remains the same at around 11 billion litres a day. Leakage levels have continued to drop significantly, with 30% less water lost compared to 20 years ago. We spent £17 million on proactive leakage control and £18 million on reactive repair work and achieved our best ever performance in reducing leakage, achieving 10% below the target agreed with Ofwat.

Almost 75% of our customers now pay for their water via a meter, and we are on target to fit and maintain approaching one million meters between 2010 and 2015. This, together with reduced leakage and the support of our

innovative water efficiency campaigns, made 2012 the year with the lowest level of water put into supply in over 25 years

We have prepared for consultation in our Water Resource Management Plan, which details our strategy to maintain the balance between water supply and demand for the period 2015 to 2040. We look forward to the involvement of a wide range of customers and stakeholders as we shape the plan for adoption in 2014.

The compliance level of our wastewater treatment works was 98%, an increase of 1% on our 2011 performance. The number of serious wastewater pollution incidents was reduced by two-thirds from 2011 to 2012. This is an exceptional performance in the first full year of integrating transferred private sewers, which almost doubled our pipe network leading to a significant increase in workload.

Our investment programme, which is in excess of £2 billion from 2010 to 2015, allows us to secure our asset base against the twin challenges of a changing climate and a growing population. It also allows us to continue to support growth and development and make a major contribution to the economic wellbeing of the east of England. We remain one of the most significant investors and employers in our region.

Very significant progress has been made on carbon reduction. We outstripped our target for reducing the amount of embodied carbon in new assets by 9%, with a reduction during the year of 39% against a 2010 baseline.

We welcome comments made during the year by the incoming chair of Ofwat, Jonson Cox, in particular his wish for the industry to focus more on the needs of customers during difficult economic times.

This approach has been central to our strategy of customer engagement during the year as we have been preparing our Business Plan for the period 2015 to 2020. Integral to this has been our biggest-ever consultation with customers. Many thousands of people have told us about their

“ We have an ambition to be a leading customer service business in the UK and we are constantly looking for new and innovative ways to improve our service. ”

priorities on affordable bills, levels of investment, flood prevention, environmental protection and much more. Throughout, this work has been overseen and evaluated by business and community leaders, senior academics and local authority representatives under the leadership of Dame Yve Buckland, national Chair of the Consumer Council for Water. Together, they have been scrutinising and challenging our business plan in line with customer feedback. This has been a rigorous and independent process that has put the interests of customers at the heart of business planning, ensuring their voice will be heard loud and clear as part of our submission to the economic regulator Ofwat later in 2013.

Our goal of 100% customers very satisfied with our service continues to drive performance, and this year has secured us first place overall within the industry, based on the qualitative element of Ofwat's Service Incentive Mechanism (SIM). In our own survey during the year, we spoke to over 35,000 customers to ask them about the quality of our service, and over 95% said they were satisfied, or better.

We also have an ambition to be a leading customer service business in the UK, and we are constantly looking for new and innovative ways to improve our service. This year we have introduced timed appointments for home visits, reports on work in progress by text messaging, and have made extensive and growing use of social media, which saw us accelerate to a position of having more Facebook 'likes' than any other water company.

“ We have been active in the debate about how the industry's regulatory framework should evolve, including a sharper focus on customer needs and expectations. ”

This has also been the first full year of operation for Anglian Water Business, targeting non-domestic customers in the emerging competitive market. This created a national brand bringing together our Scottish and English retail arms, leading to contracts with significant customers such as Asda and Greene King. Local authorities including Norfolk County Council and Bedford Borough Council have adopted our water strategy approach, committing to reduce water consumption and achieve carbon savings.

Progress has been made in driving innovation on water use in the supply chain and on water efficiency. We hosted the 'Global Water Challenge', a national conference in association with *Guardian Sustainable Business* to share thinking and best practice on sustainable water use. We continue to play a significant role in the Government's High Level Group on market reform, helping to shape the non-household retail market.

In October, we published our first *Love Every Drop* report, which gave evidence of progress against goals and commitments in the two years since we launched our sustainability roadmap. The campaigns, projects and operational performance achieved against challenging targets have involved innovative collaborations with customers, communities, business leaders and employees, and our call to action continues to be heard loud and clear.

We have also been active in the debate about how the industry's regulatory framework should evolve, including a sharper focus on customer needs and expectations. We responded to Ofwat's consultation on this in January. Changes have been agreed to the licences required for a new form of price setting. This includes a requirement for companies to work with Ofwat in developing future regulatory reforms.

Proposals for structural change in the industry were featured in a new draft Water Bill, expected to be introduced into Parliament later in 2013. We have worked with government and colleagues across the industry to help inform thinking on the major provisions, and we look forward to taking part in the legislative process.

We also welcome the Government's proposals on changes to greater transparency in governance structures and reporting. We have agreed to adopt some of the key requirements early, and take the opportunity in this report to provide more information on remuneration and corporate governance, which we believe to be good practice and in line with the expectations of customers and regulators.

We look to the future with a good deal of confidence. This year, our business has been tested in many exceptional circumstances. I believe we have emerged stronger and more resilient, with a determination to meet the needs and expectations of customers in these challenging times as we move towards the next five-year regulatory period. I am very proud to be leading the company at such an important time, and to be part of the team that has delivered such an excellent performance.

Peter Simpson, Managing Director

OUR PERFORMANCE IN 2012/13

OPERATIONAL

- **Industry leader** on customer service, securing first place in Ofwat's SIM league table (qualitative element)
- Lowest ever level of leakage - **10% below** Ofwat's target level
- Platinum Big Tick award in Business in the Community's 2013 CR Index
- First water company in the country to receive the **ISO 22301 certification** for our Business Continuity Management system
- Maintained high level of **water quality compliance at 99.96%**
- **98% compliance** at our wastewater treatment works, an increase of 1%
- Conducted our **biggest-ever consultation** with customers to prepare for our 2015 to 2020 business plan

FINANCIAL

- Ended the year in a strong financial position with **turnover up 2.2%**
- Operating **profit increased by 0.9%**
- Operating cost efficiencies will allow us to absorb unfunded costs of **£50 million** over the AMP
- Capital efficiencies have enabled us to invest an extra **£185 million** over the AMP in new schemes to benefit customers

ENVIRONMENTAL

- Lowest level of water put into supply for over 25 years due to reduced leakage, increased metering and customer campaigns
- Almost **75%** of our customers now pay for their water via a meter
- Significant progress made on carbon reduction with amount of embodied carbon in new assets **reduced by 39%** since the beginning of AMP5
- Serious pollution events **dropped by over 67%** compared to 2011
- This year we generated **52 GWh of renewable energy**
- **Reduced our energy bill** by an additional £16 million
- Saved enough energy to power **2,500 homes**
- Achieved **100% beach bathing** water compliance for the 11th year running

EMPLOYEES

- Accident frequency rate at an all-time low - **0.16 accidents** per 100,000 hours worked
- One of the most significant employers in the region
- Received the **RoSPA gold medal** for consistent health and safety performance
- **Employed 10 new graduates** and took on 24 new **apprentices**

ANGLIAN WATER AT A GLANCE



Our 10 Love Every Drop goals underpin our strategy, our roadmap to sustainability and have driven cultural change in our business

SERVING OUR CUSTOMERS

100% of our customers very satisfied with our service.



6.2 million water and wastewater customers rely on us

Over 110,000 businesses depend on our water supply

Customer call centres in Huntingdon, Lincoln and Hartlepool

Tariffs available to support our more vulnerable customers

Investing:

£94 MILLION¹

to enhance levels of customer service

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



Read more about our focus on delivering excellent customer service

INVESTING FOR THE FUTURE

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



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



Investing:

a total of
£23 BILLION¹

Including
£588 MILLION¹ meeting the needs of our growing region

£1.2 BILLION¹

to maintain the region's water and wastewater infrastructure

£390 MILLION¹

on enhancing quality and environmental improvements

Local investment supporting regional growth to bolster supplies, and build pipelines and new treatment works



Read more

SAFE DRINKING WATER IS OUR PRIORITY

No incidents.

24 hours a day, 365 days a year 137 water treatment

works treating, monitoring and safeguarding public drinking water

Supplying 11 billion litres of high-quality drinking water every day through over 38,000 kilometres of water mains

No serious incidents in 2012/13

Beating our leakage target by 10% - achieving our lowest ever level of leakage

Investing:

£17 MILLION

on proactive leakage control



Read more

SUSTAINABLE COLLECTION AND RECYCLING OF WATER

No pollutions.

Get it right first time, every time. Zero waste.

Every day more than

900 million litres

of wastewater is flushed through 76,000 kilometres of sewers to our 1,124 wastewater treatment works

Collecting and treating waste from 2.5 million households and over 110,000 businesses

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

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

Recycling waste products for fuel and fertiliser

67% reduction in pollution incidents



Read more

PROTECTING THE ENVIRONMENT

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



Committed to reducing operational and embodied carbon

As well as generating 52 GWh of renewable energy, the vast majority of the electricity we buy is now from a renewable source

We're responsible for 47 Sites of Special Scientific Interest and the total area in a 'favourable condition' is up by 28%

11 Blue Flags flew at beaches along our coastline and we have 26 Seaside Awards (also awarded by Keep Britain Tidy)

All 48 of our bathing waters meet European standards

The Lincolnshire Chalk Streams project received the Bowland Award from the National Association for Areas of Outstanding Natural Beauty



P87
Read more about how we protect the environment

WELCOMING VISITORS TO OUR WATER PARKS

No accidents.

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



Events like the Great East Swim, Europe's largest international 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. There was even room for an Olympic Torch Relay. Our parks at Rutland and Grafham received Green Flag awards in recognition of their safe and sustainable management



P70
Read more about how we welcome visitors to our big back garden

VALUING OUR PARTNERS THE BIG PICTURE

Frontier performer in our industry.

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, local government, regulation, land use, business and science

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

This year we were awarded Business in the Community's Platinum Big Tick and shortlisted for Responsible Business of the Year



P84
Read more

WORKING FOR OUR REGION

Leading employer in our region.



Our infrastructure underpins economic development across the east of England

We employ **4,000** people and many thousands more are employed indirectly through our supply chain

We contribute over **£100 MILLION** a year to the regional economy in direct employee salaries alone



P91
Read more

HIGHLIGHTS FROM THE LAST YEAR

BUSINESS REVIEW

We are striving to be as efficient, innovative and responsible as possible. We help connect our customers to the water cycle and to promote and celebrate the value of water. Whether it is encouraging everyone to get out and about to enjoy the environment at one of our water parks, helping to use less water in

the garden, giving practical advice on how to protect homes from winter bursts, or working with families to understand how best to invest for all our futures, we have been meeting tens of thousands of people from all parts of our region. Here are some of the highlights from last year.

GOVERNANCE

The Olympic Torch Relay crossed Rutland Water, our largest reservoir, our excellent drinking water compliance is maintained at 99.96%

Almost 5,000 customers gave us their views on how to invest for the future

We have beaten our leakage target by 10% and have helped customers prevent winter bursts too

STATUTORY ACCOUNTS

Students and volunteers helped us open the new-look visitor centre at Grafham Water. Our customers now rate us higher than ever, evidenced by our combined SIM score, which is up to 85 this year.

HRH The Prince of Wales visited our stand at the East of England Show to show support for our Drop 20 water efficiency campaign.

Over 2,500 people came to the Spring Fling to learn about water and farming.

REGULATORY ACCOUNTS

We have generated up to 52 GWh of our own electricity needs through renewable energy and embodied carbon in our new assets is down by 39% in this five-year investment period.

This year our operating profit is up by 0.9%, unfunded costs of £50 million were absorbed by operating efficiencies while capital efficiencies have enabled us to invest an additional £185 million in new schemes to benefit customers.

Keep it Clear - customers continue to learn how to prevent blockages in their pipes, and we have seen pollution incidents fall by 32%.

OUR BUSINESS AND HOW WE CREATE SUSTAINABLE VALUE

A YEAR OF
EXTREMES

P12

OUR
STRATEGIC
FOCUS

P14

WHO
WE ARE

P22

KEY
PERFORMANCE
INDICATORS

P26

HOW WE
WORK WITH
THOSE
AROUND US

P29

HOW WE WORK
IN HARMONY
WITH THE
WATER CYCLE

P28

HOW WE
DELIVER
VALUE

P30

RISK
MANAGEMENT
OVERVIEW

P32

MANAGING
OUR BUSINESS
THROUGH
SUSTAINABILITY

P37

HOW WE SHARE
THE RISKS
AND VALUE

P31

A YEAR OF EXTREMES

We may not be able to link recent extremes of weather to a changing climate, but 2012 provided examples of exactly the type of conditions that the climate projections suggest will be more common in the future. This puts into context how we have managed the business through a year of extremes.

REVIEW

OF THE 2010-2012 DROUGHT

"In April 2012, groundwater levels in many places were below the corresponding levels in 1976, when drought caused major disruption to supplies and led to standpipes in the streets of some towns. Had the dry, warm weather continued, water companies' resources in the south and east of England could have quickly diminished. They may also have been forced to introduce further restrictions, leading to significant impacts on the economy and society."

Environment Agency, December 2012


DROUGHT

The year started with a second dry winter in succession. As 2011 closed, several Midlands counties had seen their driest year on record, while in East Anglia and Lincolnshire only 1921 had been drier.

By March 2012 it was being reported as the driest 18 months ever recorded. The impacts were being felt in agriculture as crops struggled and restrictions were enforced on irrigation. Many farmers changed from vegetable to other crops that could better cope with the drier conditions.

The natural environment was suffering too - river flows were dangerously low, wetlands and ponds were dry, and fish, invertebrates, birds and mammals that rely on these habitats were all struggling.

As there seemed to be no change in the weather, and with the prospect of a third dry winter looming, restrictions on water use came into force across many areas of the south and east.

 P3-6, 20, 31, 34, 47-50, 54-55, 87

Read more about how we tackled the drought

FLOODING

In April the drought broke and so did even more records. April 2012 was the wettest on record as was the period between April and June 2012. And it didn't stop there. Figures for June, July and August show that 370.7mm of rain fell across the UK, making it the second wettest summer on record since the 384.4mm recorded in the summer of 1912.

As the rain continued through to September river flows were maintained, reservoirs filled and even aquifers were recharged (almost unheard of during summer months). But there were negative consequences as this intensity and duration of rainfall led to considerable localised flooding. More than 4,500 properties were flooded across England and Wales as the ground was saturated and rivers overflowed their banks and flood defences. Surface water was just as much of a problem.

In agriculture many farmers went from managing with too little water to dealing with too much. The excess flooded fields and crops, and took sediment, fertilizer and pesticides down into the river systems.

A very rainy year


Apr 12 - Sep 12 **456mm** 153% of long-term average (LTA)

Oct 11 - Mar 12 **192mm** 64% of LTA

Apr 11 - Sept 11 **222mm** 74% of LTA

Oct 10 - Mar 11 **211mm** 81% of LTA

Between April and September 2012 the Anglian area received 153% of the long-term average rainfall.

 P3-6, 33-34, 51, 55-56, 60, 76, 84-85

Read more about our response to flooding and our award-winning Keep it Clear campaign

Between April and September 2012 the Anglian area received 153% of the long-term average rainfall.

OUR STRATEGIC FOCUS

Our focus is on customer service and on delivering our investment plans in a responsible and sustainable way. This prepares us for the challenges of the future.

**Our plans
for sustaining
value over the next
regulatory cycle**

P15

**Helping shape
our strategic
direction**

P16

**Developing our
sustainability
roadmap**

P17

**Being an efficient,
innovative and
responsible business**

P18

**Customer service -
getting it right for
our customers**

P19

**Creating a positive
legacy from two
dry winters**

P20

Our plans for sustaining value over the next regulatory cycle

In 2007 we published our 25-year Strategic Direction Statement, which detailed how we would position our business to be efficient, responsible and sustainable and deal with the challenges of climate change and growth. We are investing £2.3 billion in this Asset Management Plan (AMP) between 2010 and 2015 to take the first step on that 25-year journey: improving levels of service to our customers, enhancing our drinking water quality, protecting the environment and maintaining and developing our assets in this fastest growing region in the UK.

As we look towards 2015 to 2020 our vision is to transform the way we all value and use water, and our forward planning has involved our biggest ever consultation with customers

We have worked with a wide range of groups to develop 10 new long-term outcomes for our business

These have been debated in our independent Customer Engagement Forum and its four expert panels, and we have asked our customers what matters to them to help us prioritise their services and spend their money

“We’re building our plan from the bottom up, balancing affordability with the need to maintain our assets and aligning investment to customer priorities”

Chris Royce
Head of Strategic Investment Management

“The independent Customer Engagement Forum is a new and important means of ensuring that the views of domestic and business customers influence the way that Anglian Water plans and delivers its services. In establishing this Forum the company has made a commitment to listening to customers and local communities about their requirements for water and waste services and how much they are prepared to pay for them. We are a totally independent group”

Dame Yve Buckland

Independent Chair of the Customer Engagement Forum and Chair, Consumer Council for Water

In January we invited customers to discover, discuss and help decide the best possible future for their water and wastewater services. Thousands of people took part via our consultation survey, online discussion forums and 20 region-wide roadshows, making Discover, Discuss, Decide our biggest ever consultation

This information, along with expert input from the independent panels, Ofwat, our quality regulators (Environment Agency, Drinking Water Inspectorate, Natural England and the Consumer Council for Water) and face-to-face research, will help us to shape a business plan that offers the best possible balance of priorities, while delivering high-quality customer service and keeping bills affordable

Almost 5,000 customers had their say in our Discover, Discuss, Decide consultation about the future of water services.

Helping shape our strategic direction

We've worked with a wide range of customers, community and business leaders, and others. Between us we've agreed 10 outcomes that we want to achieve for our customers, the environment, local communities and the economy.

These are shown in the diagram. They fall into three categories:

- Your service
- Our world
- Getting it right for you

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

GETTING IT RIGHT FOR YOU

FAIR PROFITS
A financially responsible, efficient business earning fair profits

SATISFIED CUSTOMERS
Ensuring that you are very satisfied with your service

INVESTING FOR TOMORROW
Provide the services our customers expect over the long term through responsible asset stewardship

FAIR CHARGES
Bills balance fairness, affordability and value for money

YOUR SERVICE

CARING FOR COMMUNITIES
Working responsibly with and for your community

A GOOD OUTCOME WOULD BE...

Drinking water is safe, clean and acceptable

SAFE CLEAN WATER

Leading by example on reducing emissions and conserving the world's natural resources

A SMALLER FOOTPRINT

Our services cope with the effect of disruptive events, in particular increasingly severe weather events. We plan ahead for the impacts of our changing climate

RESILIENT SERVICES

A flourishing environment, for nature and for everyone

FLOURISHING ENVIRONMENT

Manage and meet the growth in demand for sustainable and reliable water and wastewater services

SUPPLY MEETS DEMAND

OUR WORLD

Developing our sustainability roadmap

Love Every Drop is our roadmap to sustainability, and since its launch in October 2010 it has become embedded within our business and is a recognised leadership platform across the region and beyond.

Our 10 goals have driven cultural change throughout the business and we have seen some fantastic results that are delivering efficiency and demonstrating responsibility, including

No pollutions - Our Keep it Clear campaign has driven down sewer blockages by 51% across eight pilot areas, and pollutions are down by 32% on last year

100% of our customers very satisfied with our service - Our combined Service Incentive Mechanism (SIM) score is 85 (out of 100), up 24 points since this Ofwat measure was introduced in 2010

No accidents - We have achieved our lowest ever accident frequency rate At O16, this equates to only one reportable accident in every 600,000 hours worked, and is among the best rates in the industry

Halve our embodied carbon in new assets we build by 2015 from a 2010 baseline - This goal has been the single biggest driver for innovation in our business. With two years of this five-year investment period still to go, we are already showing a 39% reduction in embodied carbon

The 10 goals are underpinned by 36 commitments and our progress in meeting these commitments is set out on pages 103-105. Success depends on effective working collaborations with a wide range of others, including regulators, local authorities, farmers and landowners, business leaders, non-governmental organisations, academics, business partners and those in the thousands of communities we serve. This is why the role we all have to play in the water cycle underpins

a strong regional economy, our flourishing environment and helps to meet the challenges of growth and climate change

We will also reflect on the feedback received from our customers through the Discover, Discuss, Decide consultation and the development of the 10 long-term outcomes. We are now reviewing and updating our Love Every Drop goals and the commitments and measures that underpin them to reflect what we have heard

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

 P38
Read more

Business in the Community ranked us in the top tier of companies in their Corporate Responsibility Index in both 2012 and 2013.

@oneAlliance won Carbon Reduction Initiative of the Year in the Water Industry Achievement Awards 2012
Keep it Clear won the Fats, Oils and Grease Reduction Initiative of the Year at the Water Industry Achievement Awards 2012, and the Sustainable Communications category at the Environment and Energy Awards 2012.
The Potting Shed won the Landscape and Gardening category at the 2012 Water Efficiency Awards

Being an efficient, innovative and responsible business

The future is uncertain, but we think that the pressure on our natural resources will increase, the need to reduce carbon emissions will become even more important and our population will continue to grow.

We believe that acting responsibly and operating our business efficiently go hand in hand. For example, we are saving £15 million a year on energy costs compared with 2006, when we started our energy-saving programme. Investing in generating renewable energy from the sludge that results from recycling water back into the environment reduces our emissions and energy bills, and creates a nutrient-rich soil conditioner for farmers.

Being innovative and developing new working collaborations is key to delivering success. Our Water Innovation Network, run in partnership with the UK Centre for Economic and Environmental Development, is a great example of this. Over 350 different companies have become involved, generating 120 new ideas, and 10 have now been trialled and implemented.

Innovation is a driving force in our approach to securing long-term future water supplies across the region. We have been working on a Sustainable Water Stewardship Collaboratory with the University of Cambridge Programme for Sustainability Leadership. This has brought together leaders from a variety of sectors to explore new approaches and opportunities around financing, regulation and planning, water allocation and customer behavioural change.

A responsible approach towards managing our business has meant that 2012 was another excellent year for drinking water quality with an overall compliance score of 99.96%. Our strategy for reducing lead levels in drinking water has been recognised by the Drinking Water Inspectorate (DWI) as leading within the water industry. And the compliance of our wastewater treatment works is up while pollution events are down.

Our drive to reduce embodied carbon means we significantly reduce our carbon footprint

IN 2012 COMPLIANCE IN OUR WASTEWATER TREATMENT WORKS ROSE TO

98%

(2011 97%)

AND SERIOUS POLLUTION EVENTS DROPPED BY OVER

67%

(2012 3, 2011 9)

Read more  P55

THIS YEAR WE GENERATED

52 GWh

OF RENEWABLE ENERGY

Read more  P77

Customer service – getting it right for our customers

We have set a target for 100% of our customers being very satisfied with the service we provide.

We are making progress too

- Over 95% of customers asked told us they were satisfied or better with the service they have received
- Of those that have called our contact centres, 83% tell us that they are very satisfied
- Over 90% of customers asked were very satisfied with the person who visited their property

Developing our use of social media and introducing text alerts for better management of customers and dealing with service issues has been invaluable. We are supporting customers online through Twitter and Facebook and by using 'How To' video guidelines, online chat tools and a 'virtual' assistant (see case study, page 63)

Good progress does not make us complacent. We know that to reach our 100% target every employee must play their part. Our Face of Anglian Water customer service training programme has been extended beyond front-line employees to include support teams too. A further 170 employees in support roles, and 75 managers and senior technicians have been trained to coach their teams in service skills. Our contractors are playing their part too, and 270 of their customer-facing employees have also received training.

When our employees get it right our customers tell us, and we recognise and reward those who go the extra mile and deliver exceptional service.

A typical example is Field Technician Shaun Jackson who consistently scores '100% very satisfied' by customers in Ofwat's customer satisfaction survey, called the Service Incentive Mechanism (SIM).

“Knowing I've helped when I come away from a job gives me great satisfaction and getting the vouchers shows the company appreciates my efforts. I'll carry on doing the same as I must be doing something right!”

Shaun Jackson
Field Technician

 P65

Read more about how we evaluate the service we provide to our customers

Creating a positive legacy from two dry winters

Weather extremes such as those we have experienced in the past 12 months affect our customers and our operation. We know that how we respond shapes our reputation and that of the wider industry. So we did not miss the opportunity to help demonstrate strong leadership.

Acting on the facts

At the end of 2011, we applied to the Environment Agency (EA) for permits to take more water from rivers to fill Pitsford Reservoir and Rutland Water. The region was officially in drought, with some places experiencing their lowest rainfall since 1921. Our permit applications were to maintain levels in the reservoirs at a time of year when they should have been refilling, but weren't.

The first three months of 2012 stayed dry, with groundwater levels and river flows decreasing. Concern grew for crops and wildlife. Water levels continued to fall in reservoirs. Across the region, groundwater levels were up to five metres below normal.

On 5 April 2012, after the driest 18 months in 100 years, in common with a number of other water companies we imposed a hosepipe ban – the first in the east of England for 20 years.

Dealing with extremes

During April the region experienced torrential rain – with some parts seeing three times the normal amount for the month – followed by a summer that was the wettest for a century. We lifted our hosepipe ban on 14 June 2012, just 10 weeks after it started.

Our water resource 'recharge' season finally began in April. This is in contrast to a 'normal' year, when we would expect to fill our reservoirs and aquifers in the wetter winter months, building stocks to sustain supplies through the summer.

Applying what we learned

Throughout, we helped to lead the national response as part of the National Drought Management team, which reported direct to the Government. This work continues as we build on our experience, and use what we learned to create a positive legacy from the 2011/12 drought. In particular, we are challenging current thinking on resilience. Together with the EA, we have led several national events to help encourage the industry and its regulators to understand the true impacts of drought, and ensure better preparedness in future.

In response to the drought conditions, we had planned to invest an additional £120 million of capital expenditure in the period to 2015 to increase our resilience and protect customers' supplies. However, the summer rainfall and subsequent replenishment of resources enabled us to reprioritise delivery of these schemes in the most efficient way possible. This allowed us to revise this investment to £43 million.

We are now better prepared than we've ever been to deal with extremes of weather. This is a vital part of our business planning, given the increasing frequency of extremes – four of the five wettest years in the last century have come in the past decade (source: Met Office), while record-beating temperatures at both ends of the scale are seemingly an annual occurrence.

“We're well versed in dealing with incidents, but rarely have we been on a continuous incident footing as much as we were in 2012. We started with drought, and before we knew it, we were dealing with flooding. We've worked tirelessly to protect our customers over this last year – no mean feat, given the challenges the severe weather has thrown at us.”

Paul Valleley

Director of Water Services

Leading by example

The additional investment in leakage in 2012/13 enabled us to achieve our lowest ever level of leakage. Our overall leakage level including customers' private leakage was 189 MI/d. This is our best ever performance and 10% below our Ofwat target of 211 MI/d.

In order to achieve this performance an average 128 leakage detection technicians were deployed throughout the year. 62 of these are our own insourced leakage detection technicians, the remainder were from specialist contractors. This compares to 104 in the year 2011/12.

We proactively detected 8,266 leaks, which represents some 30% of the total. This is significantly more than the 20% detected in previous years, which indicates that our customer service is greatly improved, and we are also realising further efficiencies as the cost of dealing with customers' complaints is reduced. Our overall repair performance has also been excellent with nearly 90% of all burst mains fixed within a day of us being notified, and 75% of all other leaks fixed within two days of notification.

We also targeted investment on leakage monitoring infrastructure by repairing and replacing faulty meters. Almost 2,800 faults were resolved and 393 district meters were repaired or replaced. As a result, our District Metering Area operability has exceeded 90% for the first time ever, enabling us to better target leaks. Our leakage detection productivity has improved by 18% compared to 2011/12.

The experience gained this year has been instrumental in informing our leakage strategy for the next investment period from 2015 to 2020. Our challenge during the final two years of AMP5 is to maintain these improvements without the benefit of the additional investments, such as those made during the drought in 2012.

OUR TACTICAL RESPONSE

As a direct result of the weather extremes we experienced in 2012, and the impact they had on our region, £43 million of additional investment has been made to increase our resilience and protect our customers' supplies. These schemes include finding new sources of water, improving our ability to move water around the region, and protecting the supplies we already have by investing in leakage detection and repair work.

More and more people are realising the importance of water in their lives. In the coming year, we must keep up the momentum in our campaigning and customer communications, so that we all make long-lasting and sustainable changes to our behaviour.

Mark Pendlington
Director of Corporate Affairs

WHO WE ARE

BUSINESS REVIEW

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\$183.3 billion CPP Fund to maximise returns without undue risk of loss.

Industry Funds Management (IFM) is a global asset manager owned by 30 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

Assets¹

**A\$166.5
BILLION**

**C\$183.3
BILLION**

**A\$44.0
BILLION**

**£12.9
BILLION**

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

¹ Assets under management at 31 March 2013



Our corporate structure

AWG is owned by a consortium of investors, as outlined on the opposite page. The complete holding company structure is presented in the diagram on the left, and the principal companies in the structure are explained below.

When AWG was acquired by the AWG investors in 2006, Anglian Water Group Ltd became the ultimate parent company of the group. It is a Jersey registered company, but it is fully UK tax resident, and as such, is liable for tax in the UK. Osprey Holdco Ltd has issued debt that is held by our shareholders in proportion to their respective shareholdings, and they receive an interest payment on the debt annually. Osprey Acquisitions Ltd has borrowed money from banks and the capital markets (bonds) for use within the group.

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

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

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

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

Our role as a good corporate citizen

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

Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund that investment. We have one of the largest levels of private investment in the region, worth £2.3 billion over five years. This is central to underpinning economic recovery and growth of the regional economy. This investment defers some of our corporation tax liabilities until a later period, and is something the Government actively encourages. Customers also benefit from the deferral as it helps to keep bills lower. We confirm that we comply with the recently published CBI Statement of Tax Principles, which aims to drive greater tax transparency in business and encourages companies to explain what they do in a straightforward and accessible narrative.

However, the company's total tax contribution for the year extends significantly beyond the payment for corporation tax.

Total tax paid or collected in the year to 31 March 2013 amounted to £178 million (2012: £180 million) of which £54 million

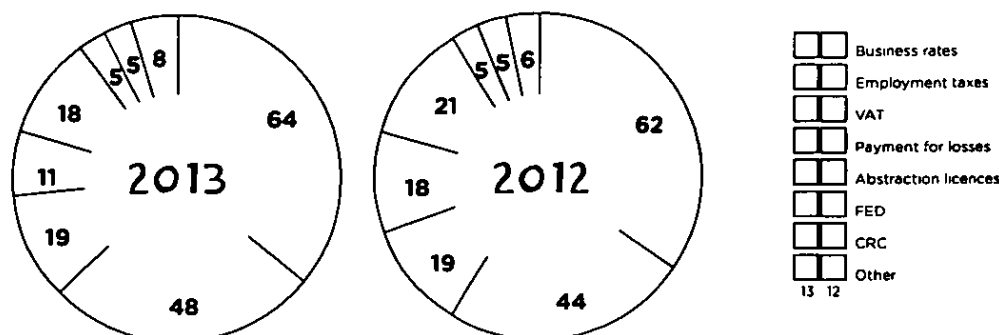
was collected on behalf of the authorities for net Value Added Tax (VAT) and employee payroll taxes.

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

- Business rates of **£64 million** paid to local authorities. This is a direct cost to the company and reduces profit before tax.
- Employment taxes of **£35 million** including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of **£13 million** were charged approximately 71% to operating costs, reducing profit before tax, with 29% capitalised to fixed assets.
- VAT of **£19 million** collected and paid to HMRC. VAT has no material impact on profit before tax.
- Payments of **£11 million** made to other group companies to compensate them for tax losses surrendered to the company. This has no impact on profit before tax.
- Abstraction licences and direct discharges of **£18 million**. This is a direct cost to the company and reduces profit before tax.
- Fuel Excise Duty (FED) of **£5 million** related to transport costs and charged to operating costs, reducing profit before tax.
- Carbon Reduction Commitment (CRC) of **£5 million** was also charged to operating costs, reducing profit before tax.

AWS total tax contribution

Figures in £ million



The Anglian Water Services Limited Board

Chairman

Sir Adrian Montague CBE

Executive Directors

Peter Simpson,
Scott Longhurst,
Jean Spencer,
Chris Newsome

Independent Non-Executive Directors

Christopher Garnett OBE,
Robert Napier CBE,
John Watkinson

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

The Directors of AWS all served throughout the year

See pages 106 to 135 for Directors' biographies, the corporate governance report, the Audit Committee report, the remuneration report, the Directors' report and the statement of Directors' responsibilities

The Anglian Water Services Executive Directors also sit on the Anglian Water Services management board, working closely together to develop and review our long-term strategic direction for approval by the board and implementing the agreed strategy

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 of 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

 **P98** See financial performance

KEY PERFORMANCE INDICATORS (KPIs)

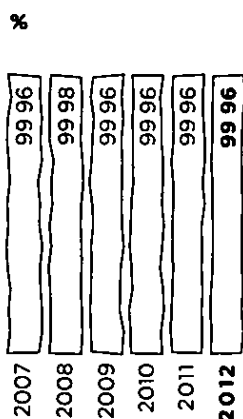
Operational

Environmental

Drinking water quality¹

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

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



Our drinking water quality continues to be excellent. Our strategy for reducing lead levels in drinking water has been recognised as leading in the water industry

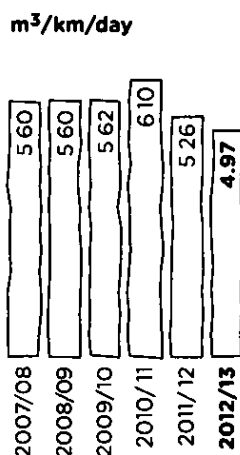
P52
Read more about water quality initiatives

P52
Download our Drinking Water Quality Report at www.anglianwater.co.uk/dwq

Leakage²

Cubic metres of water lost per kilometre of main per day

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



Industry average 2011/12
8.89m³/km/day

This year we achieved our best ever performance on leakage to reflect our commitment to securing supply to our customers and protecting our environment against potential drought. We beat our Ofwat target by

10%

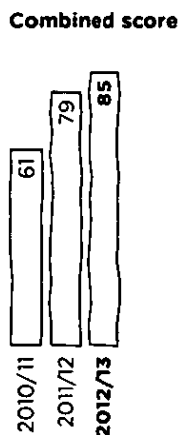
P49
Read more

Service Incentive Mechanism (SIM)

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

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

Our performance



Our combined score is out of a possible 100. This has improved by 24 points from 2010/11. Our customer satisfaction scores also continued to improve over the year and we ended the year ranked top in the qualitative league table for all water and sewerage companies

P62
Read more about meeting the needs of our customers

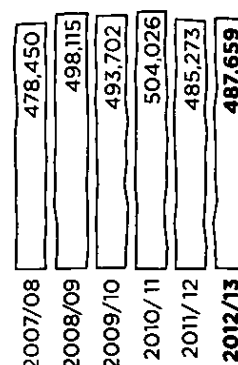
Carbon footprint

CO₂ emissions equivalent in tonnes CO₂e

This key measure helps us

- Manage our environmental impact
- Deliver cost savings

Gross tonnes CO₂e



Our longer term aspiration is a **50%** reduction in emissions by 2035 from a 2010 baseline. We have achieved a 12% reduction in this asset management period alone

P80
Read more about our carbon goals

Financial

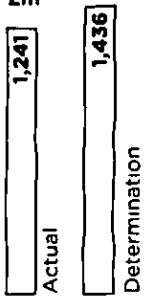
Employees

Capital expenditure £m³

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

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

Three years to 31 March 2013
£m¹



Delivering our regulatory outputs, plus the extra requirements for private sewers, but with lower spend than assumed in the Final Determination due to

- Higher efficiencies
- Reduced demand for new connections

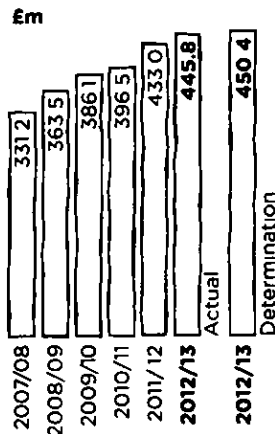


Read more about finance

Operating expenditure £m⁴

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

The cost of running Anglian Water operations and achieving our objectives



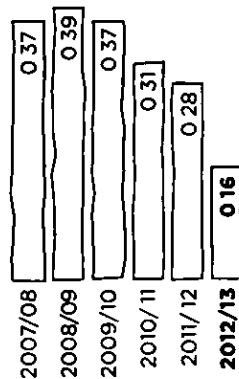
Below inflation increase of 3% over 2011/12 due to targeted efficiencies, improved bad debt and one-off savings that partially offset inflationary pressures across the business. Despite the additional costs of the Carbon Reduction Commitment and private sewers transfer we have outperformed the Final Determination this year

Accident frequency rate

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

Indicates how safely we work

Accidents per 100,000 hours worked

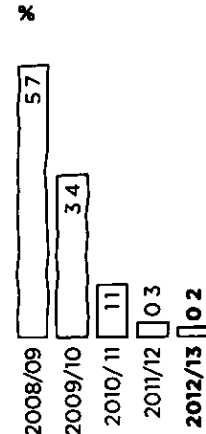


Our BS OHSAS 18001 certificated health and safety management system is embedded throughout the company. We continue to make progress towards our ultimate goal of no accidents and no harm to people. We are particularly proud this year to have received a Gold Medal from The Royal Society for the Prevention of Accidents in recognition of our seventh consecutive Gold Award

Accident Severity Rate

The number of Category 1 accidents/incidents expressed as a percentage of all accidents/incidents

Measures severity of accidents/incidents



We have previously used the Health and Safety Executive's (HSE) CHaSPI metric in our KPIs. The HSE has stopped using CHaSPI, so we have replaced it with our Accident Severity Rate indicator, where all accidents/incidents are categorised Category 1 accidents/incidents (most serious) are those that resulted or could have resulted in death, major or multiple fractures, amputation or permanent disability

How this KPI relates to our strategy

Our performance

Our 2012/13 performance in context

Footnotes

¹ Drinking water results published in 2013 for the calendar year measured as 'mean zonal compliance' with the regulatory quality standards
² Lost water from leaks in our network and our customers own pipes. 2012/13 result subject to formal confirmation from Ofwat in autumn 2013

³ Final Determination Capex on a gross Pre-capital Incentive Scheme adjustment basis, in 2012/13 prices
⁴ For the appointed and non-appointed businesses. Final Determination adjusted to 2012/13 prices and for non-appointed business and pension deficit payments to ensure consistency

HOW WE WORK IN HARMONY WITH THE WATER CYCLE

Our business is part of the water cycle; we take water from the environment, treat and supply it for people to use, collect and treat it again before returning it back to the environment. Creating new assets and sources of water can require years of planning before they are needed.

That is why we have to plan and invest for our future today. If we don't, the consequences could hinder or impact on the cost of the supply of drinking water and treatment services in

the future. These services are crucial to the continued growth and economic success of the region - the regional economy is worth approximately £111 billion gross value added (GVA) today. Recreation and tourism relies on clean rivers, broads and coastline. Agriculture needs its fair share of water too. Over six million people and 111,000 businesses rely on the efficiency and affordability of our services today, and for sustainable growth in the future. Today we employ 4,000 people and put over £100 million into the local economy through wages

Protecting our river catchments can also prevent the need for costly extra treatment to remove pesticides and fertilizers from treated water

Protecting the environment - by educating customers to keep their pipes clear they cost less to maintain and prevent pollutions, leaving a healthy environment for all to enjoy

Investing in efficient low carbon assets and processes - this reduces our carbon footprint and our costs

WE COLLECT WATER FROM THE ENVIRONMENT

WE RECYCLE WATER BACK

WE TREAT WATER

Producing biosolids - these provide an affordable, nutrient-rich soil improver for farmers and they can also help retain water in the soil when it rains

WE TREAT THE USED WATER

WE DISTRIBUTE THE WATER

Affordable bills and fair profits - our finance model means we are able to keep bills affordable today and in the future

WE COLLECT USED WATER

CUSTOMERS ENJOY THE WATER

Losing less - driving down leakage

Using less - encouraging our customers to use less leaves more water in the environment and delays the need to build costly new resources

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

HOW WE WORK WITH THOSE AROUND US

We engage and collaborate every day with many people and organisations. Our strategy to be a sustainable business is dependent on our day-to-day activities with the people we work with and the resources that fuel our business. As we are a regulated business three of our key stakeholders are:

- Ofwat - our economic regulator, which agrees our level of investments and the price of customer bills,
- Environment Agency (EA) - which proposes investment in environmental quality, and
- Drinking Water Inspectorate (DWI) - which ensures appropriate investment in the quality of the water we supply

ECONOMY

The main stakeholders we engage with in this area include business organisations, local authorities and local enterprise partnerships, also suppliers such as our construction partners, IT and telecoms companies. Our close working collaboration with these stakeholders then has an impact on water-dependent industries, on growth and tourism, and on the success of the regional economy.

BUILDING A SUSTAINABLE BUSINESS WITH OUR STAKEHOLDERS

The key bodies we engage with in this area include organisations such as the Committee on Climate Change, non-governmental organisations, the Government and influential bodies such as the RSPB, local nature partnerships and the Wildlife Trust network. Pressure points for us here include the fact that East Anglia is the driest region in the country, is the most low-lying and has a long coastline that is vulnerable to rising sea levels.

SOCIETY

Our principal stakeholders in society are all those who live and work in the communities we serve - first and foremost our customers. This includes business customers and those in the public sector, including hospitals, schools and local authorities, as well as our 6.2 million domestic customers and many organisations across the region including Business in the Community. We also have 4,000 employees and many thousands more indirect employees within the region.

ENVIRONMENT

HOW WE DELIVER VALUE

BUSINESS REVIEW

Ofwat determines the level of our five-year investment plans and we then seek the most cost-efficient way of raising the capital to deliver them.

We know that whatever we invest is underpinned ultimately by customers' bills. So it is important to show how that money is being spent and how it is delivering value.

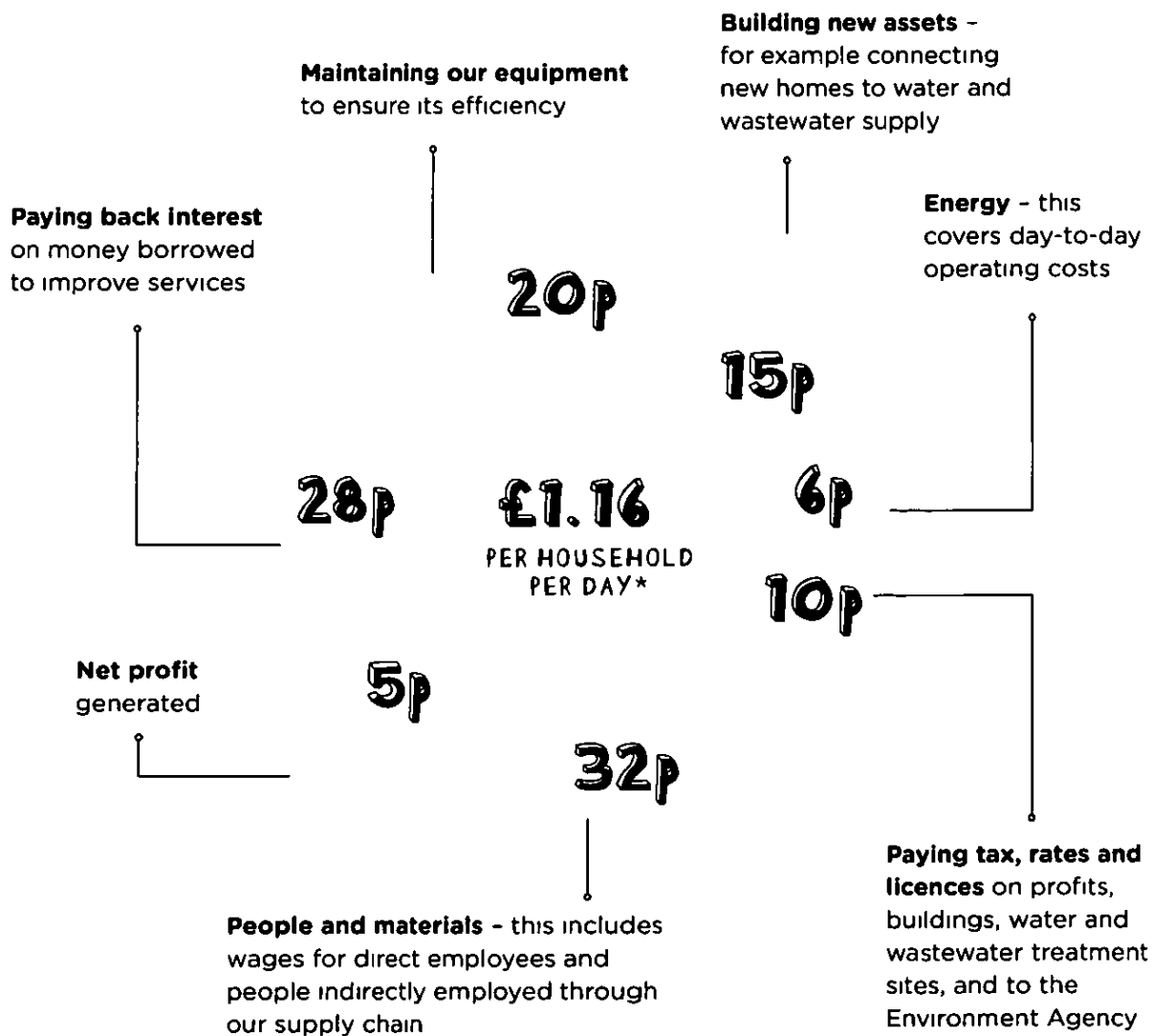
By making efficiencies in how the investments are delivered, or if we are required to deliver additional investment, we can look to share that value or risk with our customers.

Where does customers' money go?

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS



*Based on an average annual bill of £423. This diagram is for illustrative purposes, based on figures derived from our Final Determination for AMPS.

HOW WE SHARE THE RISKS AND VALUE

We currently operate in an incentive-based regulatory regime that provides for the sharing of risk and value between the company and our customers. We are incentivised to become more efficient and where this happens we retain the benefit within the current five-year regulatory period before customers then take the benefit at the next price review. On balance about 30% of any saving is retained by the company and its shareholders and about 70% benefits customers. About £180 million of the efficiencies that we have delivered to date will be returned to customers at the next price review in 2015. This means that risk carried by customers is minimised and reduced to a small number of specific factors.

The specific factors where customers currently bear the risk include the costs arising from the adoption in 2011 of private sewers, the increase in bad debts due to the challenging economic climate, and any increase in the Environmental Improvement Unit Charge*.

We have a relatively high level of debt compared to more traditional listed companies. Because there is more interest payable on this debt, which reduces the amount of taxation due, customers' bills are £100 million lower over the five years than they would otherwise have been.

Additional benefits to the region include:

£600k

IN THE ANGLIAN WATER ASSISTANCE FUND

£4.8m

GENERATED IN SOCIAL VALUE** BY OUR RIVERCARE PROJECT

£3.6m

INVESTED IN THIS FIVE-YEAR INVESTMENT PERIOD ON PROTECTING NATURE

700

EXTRA JOBS IN THE REGION SINCE 2005

*These are contributions to a fund to enable the Environment Agency to pay compensation when abstractions have to be reduced to restore habitats
**Source: *Keep Britain Tidy* by Baker Tilly Corporate Finance

We recognise however that it is right that we do more. In total, we have agreed £255 million extra investment in this current regulatory period, comprising operational and capital efficiencies, that we will make for the benefit of customers.

Operating cost efficiencies achieved during the current regulatory period mean that we are able to absorb the additional unfunded costs of some £50 million associated with the adoption of private sewers and bad debt, without the need to pass that expenditure back to customers. In addition, we have spent or expect to spend, an extra £12 million of unfunded operating expenditure on further reducing leakage and have spent £8 million on tackling drought.

Capital expenditure efficiencies achieved over the AMP have allowed us to invest an additional £185 million in new schemes to benefit our customers. This includes £18 million of capital investment on keeping leakage at an all-time low level, and £35 million to protect our customers from the impact of future drought. Both of these figures are in addition to the extra operating expenditure noted above.

RISK MANAGEMENT OVERVIEW

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Effective risk management is central to the achievement of our strategic priorities. It is managed across our business through a number of formal and informal processes.

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

We track 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 Risk and Compliance Monitoring Committee, and the AWS board.

Here, we give an overview of our risk management priorities, outline our approach to mitigation and adaptation, and point to sources of more detailed information. There is more detail on our key long-term challenges in our Strategic Direction Statement.

“ We have raised funds in the financial markets this year to ensure we are able to meet all our debt repayments in 2013/14. In addition, we financed our business to ensure we were able to deal with the uncertain impacts of weather extremes on our business. Managing higher cash balances as a consequence of fund raising continues to be a high priority for us. We expect short-term interest rates to remain low, as a result of the Bank of England's schemes to restore strength to financial institutions, therefore our cost of carry will remain high.”

Jane Pilcher
Treasurer

“ The water industry and its regulators have a high level of understanding of potential climate change impacts on water availability and a good understanding of the implications of climate change for the sector's flood resilience.”

**UK2012 Climate Change
Risk Assessment**
Water Sector Summary

 To read or download our reports, go to: www.anglianwater.co.uk

FINANCING OUR BUSINESS

More information on our financing  P100

Description

We are funding a £2.3 billion¹ capital programme in AMP5 and have a gross debt of £6.3 billion to manage and service. It is 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, with equity (shares) making up the balance of our regulatory capital value. Net debt accounts for approximately 80% of our regulatory capital value as at March 2013.

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

FLOODING

More information on resilience  P60

Description

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 impact our 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. Twenty key water sites will receive enhanced flood protection or resilience. The first site has already been completed, a further four will be delivered in 2013/14 and the remainder are currently in design. Comprehensive business continuity plans are in place, and are certified to ISO 22301, 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  P84

Description

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

Mitigation

We invest considerable effort in forecasting our supply and demand requirements at a local and regional level for the next 25 years. We continually assess our investment options to identify the 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.

WATER SECTOR REFORM

More information  P 43

Description

The future shape of the water sector has been the focus of considerable public policy debate over the last few years. The Government published its Draft Water Bill that continues to highlight significant changes to the industry. During 2012/13 we have agreed to changes in our licence that will allow Ofwat to make changes to the price setting mechanism at our next price review. This primarily relates to being able to set separate Wholesale and Retail controls, these changes are further set out in Ofwat's consultation (Setting Price Controls for 2015-20 - framework and approach)

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 Defra's High Level Group that is overseeing the development of a business retail market that is targeted for 2017.

CLIMATE CHANGE

More information  P 75

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 'waterstressed' by the Environment Agency. 2012 has been a year of extremes, moving from severe drought into one of the wettest years on record. Although this cannot be attributed to climate change, it clearly demonstrates how vital it is that we manage supply and demand carefully, both today and for the future.

Mitigation

We have a senior level Climate Change Steering Group assessing the implications on our business and have produced and published an adaptation report in line with the requirements of the Climate Change Act. Climate change scenarios are used in the development of our Water Resource Management Plan. We have assessed the risk of extreme weather on our assets, particularly flooding, and are taking measures to protect the top 20 sites at risk. We actively engage at a local, regional and national level on the debate to ensure that those with interdependency with water are aware of the challenges we face under a changing climate.

BAD DEBT

More information  P 66

Description

We continue to experience significant numbers of customers who are unable to pay their bills, or who choose not to pay them. This puts a considerable cost burden on those who do pay their water charges, of around £15 per year. We currently provide around 2.7% of our revenue against non-payment of bills.

Mitigation

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

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

PRIVATE SEWERS

More information  P31 and 57

Description

The transfer of private sewers and lateral drains took place on 1 October 2011 following the introduction of new legislation earlier that summer. As a result, we increased our network by 70% and will become responsible for up to 3,000 pumping stations by October 2016.

Mitigation

To ensure a smooth transfer, we wrote to all our customers to serve the adoption notice and explain the process and the change in responsibilities. We also took the opportunity to restructure our wastewater operational teams to meet the challenges associated with the transferred assets.

Since the transfer, we have seen a steadily increasing trend in our workload driven by customer understanding and awareness. However, with the additional resources and external contracts in place, the increase has been manageable and we have seen improvements in levels of service and customer satisfaction levels.

The legislation also covers the adoption of private pumping stations, which are due to transfer by 1 October 2016. We estimate that up to 3,000 pumping stations will transfer, and we are currently carrying out surveys and investment modelling to inform our adoption strategy.

ENERGY MANAGEMENT

More information  P77 to 83

Description

We are one of the largest users of electricity in the east of England, owing to the power we need to treat water and wastewater, and pump it around such a geographically flat region.

Energy – in the form of electricity, gas and fuel oils – represents 12% of our total operating costs and accounts for the vast majority of our carbon footprint. Hence, our strategy is to measure, manage and reduce the associated cost and carbon impact. Being such a large user of energy also requires us to maintain and improve the resilience of our energy supplies.

Mitigation

We use a comprehensive hedging programme to manage our exposure to wholesale energy prices, and over the last few years we have progressively secured 100% of our wholesale electricity costs for the next two years.

We also have a significant and continuous programme to reduce energy consumption, with a focus on the energy efficiency of new investments, and on more energy-efficient ways to operate our current sites.

We continue to invest in back-up power supplies and renewable energy. Not only does this protect us against supply problems and volatile costs, but it also reduces our carbon footprint.

This year we generated 52 GWh of our own electricity needs through renewable power plants based on our own sites, and we have ambitious plans in place to increase this by the end of AMP5.

LEGISLATION

Our Directors' report is on  P132

Description

We carefully manage compliance with current legislation and monitor forthcoming legislation such as the Water Bill mentioned in the Queen's Speech, which is expected in this session of Parliament. Following on from the Water White Paper and the Draft Water Bill published by Defra in summer 2012, it is expected that the Water Bill will make major changes to the current water supply licensing regime for business customers and include new duties to ensure greater resilience in water supply resource planning and associated infrastructure.

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 our Legal Director sits on the Risk and Compliance Monitoring Committee, which meets on a quarterly basis.

EFFICIENCY DELIVERY

More information  P72

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 three 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 three 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,
- improve the operability of what we deliver.

Our efficiency in delivery has been essential to mitigate the impact of additional costs that have been incurred in the form of the Carbon Reduction Commitment, the transfer of private sewers and the Environmental Impact Unit Charge, collectively totalling more than £10 million per annum, none of which were included in prices when the AMP5 determination was made.

PENSIONS

More information  P96

Description

Pensions are valued by employees, but defined benefit pension arrangements are subject to numerous cost risks including inflation, interest rates, asset market movements and life expectancy. In addition, Government proposals for change, such as the removal of contracting-out status from April 2016, create further cost risks.

There are two main defined benefit arrangements within the Group – the Anglian Water Group Pension Scheme (AWGPS) and the Hartlepool Water Section of the Water Companies Pension Scheme (WCPS). The next actuarial triennial valuations of these schemes are due on 31 March 2014. As a consequence of very low interest rates, the effect of quantitative easing on gilt yields, and poorer than anticipated market movements, deficits are likely to increase from the 2011 position.

Mitigation

We have made significant changes to benefit design in AWGPS to take cost and risk out of the scheme. The changes, effective from April 2012, restricted growth in pensionable salary, and also reduced pension costs arising from early retirement and redundancy.

A risk reduction provision of over £80 million has been agreed with the Trustees, and this will be used to further reduce risk and volatility in the scheme when market conditions make it cost effective to do so. The company and Trustees work closely together to monitor the position, and company agreement will be obtained before implementation.

MANAGING OUR BUSINESS THROUGH SUSTAINABILITY

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Leading the way in transforming behaviours

We believe that the top level risks that we have identified cannot be tackled without innovative thinking and new collaborative approaches. This is the best way to tackle the risks associated with climate change, flooding, energy use, regional growth, sector reform and bad debt.

Our Love Every Drop strategy is at the heart of this approach as we work to put water at the heart of a whole new way of living by transforming the way we all use and value water. Long-term access to secure supplies of water is one of the most pressing environmental and economic challenges the world faces today. Getting to grips with this is not something that can wait until tomorrow. We want to lead the way in raising awareness about how essential water is to life, to people and the environment - and to a vibrant and growing economy too. So we'll continue to encourage everyone to join our campaign for the future - and we take on the challenge of being seen to lead by example as we drive innovation and change through our business.

Our region's population is one of the fastest growing in the UK, but water supplies are limited, and the east of England is one of the areas most vulnerable to the impacts of climate change. The last few years have given us plenty of evidence to demonstrate how our climate may be changing. We have seen the driest conditions for nearly a century, leading to drought across the entire region and beyond. In 2012, this was followed by one of the wettest summers on record. Meanwhile, the global water crisis remains serious, with demand expected to increase by over 30% between now and 2030. That's why we are so passionate about Love Every Drop. It's our call to action - and it is how we are tackling the issue head-on.

Our vision is simple and our message is clear: we are asking individuals, businesses and communities to think differently about the water we all use, how it gets to our taps and what happens once we're finished with it.

We will achieve this vision by focusing on three main areas:

Innovating by exploring new ways to operate more sustainably and helping our customers, business partners and employees embrace Love Every Drop.

Transforming behaviours by playing a leading role in reshaping how society values and uses water, and reducing our combined impact on the world around us.

Collaborating and engaging with customers, colleagues, business partners and communities, and inspiring them to take positive steps towards achieving our vision for a sustainable future.

Our Love Every Drop strategy is now over two years old and we're proud of our achievements so far. Taken together, the 10 ambitious business goals we set ourselves plus over 100 commitments and measures that underpin them form our sustainability roadmap. The progress we are making against these targets is detailed in our 2012 Love Every Drop report (read more at www.anglianwater.co.uk).

These 10 business goals were developed by our management board in 2010, the members of which are also responsible for monitoring progress and ensuring delivery.

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

100% of our customers very satisfied with our service

No accidents

No pollution

No incidents

Get it right first time, every time. Zero waste

Leading employer in our region

Frontier performer in our industry

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

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

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

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

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

OUR MARKETPLACE AND HOW WE ENGAGE WITH OUR STAKEHOLDERS

We know that we can't be a successful business if we work in isolation. So how we engage with our regulators, contribute to emerging policy and provide thought leadership is crucial to our future.

WATER AND WASTEWATER INDUSTRY OVERVIEW

P40

REGULATORS AND THE REGULATORY ENVIRONMENT

P41

LEGISLATIVE AND PUBLIC POLICY ENVIRONMENT

P43

THE BUSINESS ENVIRONMENT COMPETITION IN THE WATER INDUSTRY

P44

PARTNERSHIPS DRIVING SUSTAINABILITY

P45

WATER AND WASTEWATER INDUSTRY OVERVIEW

£10.7bn

OUR
INVESTMENT
SINCE 1990

In 2012/13 prices

BUSINESS REVIEW

GOVERNANCE

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

 www.hartlepoolwater.co.uk

STATUTORY ACCOUNTS

- 10 water and sewerage service providers including Anglian Water. Two of these companies also supply water to some customers in our region
- 10 water-only suppliers. Three of these water companies supply drinking water to some customers in our region
- Five local companies providing water or sewerage services, or both
- Eight water supply licensees offering water services to large-use customers

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 service

£100bn

WATER INDUSTRY INVESTMENT IN ENGLAND AND WALES

In improving water quality and services since 1990. Our investment in that period totals £10.7 billion

REGULATORY ACCOUNTS

 Read more online:
www.anglianwater.co.uk

REGULATORS AND THE REGULATORY ENVIRONMENT

To create a sustainable business we cannot work in isolation, so we work and collaborate on a day-to-day basis with all the stakeholders in our marketplace.

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 33 providers of water and sewerage services 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-year 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 to 2015. These came into effect on 1 April 2010. Work is now well progressed on our plans for 2015 to 2020. More information on our charges for 2010 to 2015 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

Along with our regulatory bodies we are guided by our customers. We listen to their views and act on their feedback. Last year we spoke to over 35,000 customers to get their thoughts on the quality of our service and how we can improve. Read more about how we're improving customer service on page 62

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 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

The Drinking Water Inspectorate is responsible for ensuring compliance with the drinking water quality regulations (www.dwi.defra.gov.uk) See our Drinking Water Quality report at

 www.anglianwater.co.uk/dwq

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

Ofwat has been continuing to consider how the economic framework regulation must evolve to meet future challenges, and to make companies focus more tightly on customer needs. Since the last price review in 2010, we have played an active role in supporting the debate.

In January 2013, Ofwat published a consultation on the framework and approach for setting price controls for 2015 to 2020 and confirmed the following key proposals it intends to adopt:

- A move towards a more outcomes-focused approach, with outcomes agreed through the customer engagement process
- Separate price caps to be set in future covering retail and wholesale activities
- 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
- Price control period remains at five years
- Companies will submit only one business plan, with company boards responsible for assurance of their plans

During the year, discussions between Ofwat and water companies continued on the changes to licences required for a new form of price setting. Companies had rejected Ofwat's initial proposals on the grounds that they introduced too much uncertainty into the price-setting process. In December 2012, Ofwat suggested a revised, narrower set of licence changes, including a requirement for companies to work with Ofwat in developing further regulatory reforms. These were accepted by all water companies.

We welcome comments made during the year by the incoming chair of Ofwat, Jonson Cox, and in particular his wish for the industry to focus more on the needs of customers during difficult economic times. We will continue to contribute to all debates about how the industry can better serve customers, improve the transparency of its governance, and maintain a focus on ensuring customers' bills remain good value.

Our focus is to produce a business plan at the end of 2013 that sets out clearly our priorities for the period 2015 to 2020 and will deliver the outcomes customers have told us they value.

LEGISLATIVE AND PUBLIC POLICY ENVIRONMENT

The Water Bill

On 9 July 2012, the Government published the Draft Water Bill for pre-legislative scrutiny. This allows Parliament and all interested parties to comment before the Bill is introduced into Parliament. The Bill sets out the Government's plans to extend competition in the water industry in both the upstream and retail markets, allowing any business customer or public sector body to choose their supplier of water and sewerage services from 2017.

The House of Commons Environment, Food and Rural Affairs (EFRA) Select Committee held an inquiry into the Draft Bill, during which they examined written evidence and held public evidence sessions. We submitted written and oral evidence to the Committee, emphasising our commitment to work with the Government to deliver a resilient, affordable and sustainable water supply.

We also voiced our concern that the complexity of the resulting legislative framework would lead to uncertainty among new entrants, as well as existing incumbents and licensees. We also emphasised the need for the Government to retain sufficient powers, aside from the regulator Ofwat, to ensure the desired policy direction is followed.

“It is important that the Water Bill helps deliver resilient and sustainable water supplies for our customers.”

Jean Spencer
Director of Regulation

EFRA published its report on the Draft Water Bill on 1 February 2013, concluding that further work is needed before the Government embarks on reforming the wholesale market. They recommend that the Department for Environment, Food and Rural Affairs (Defra) consults water companies, consumer representatives and other interested parties both on the likely impact of the reforms and on the detail of their implementation.

EFRA has also called for greater clarity on the key principles that will underpin the introduction of upstream reforms in order to improve certainty for all parties, including investors. They want a clear commitment that the reforms will not lead to any further de-averaging of prices, to protect customers.

Following the announcement in the Queen's Speech, the Government is expected to publish the Water Bill later this year.

“Our ambitions in the Water White Paper, which were pretty universally welcomed across the piece, remain absolutely on track. The Water Bill is just part of our ambition in delivering that reform agenda.”

Richard Benyon MP
Minister for the Natural Environment

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 (MI) 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 historic statutory area on five sites. Within our area there are now 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, the consumption threshold for non-household customers wanting to switch supplier under the water supply licensing regime is 5 MI per annum. Company access codes are based on 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 Draft Water Bill includes various measures to encourage the development of the water retail market and encourage new players into the industry. Accordingly, Ofwat's proposals include a separate price cap for the retail business. The non-contestable retail market (including all household customers) will be regulated using an average cost to serve, while the contestable

market will be regulated using default tariffs and default service levels. Ofwat is also proposing an incentive to encourage water trading.

Ahead of a separate retail price control and in anticipation of greater retail competition in the future, Anglian Water continues to prepare for competition through its UK-wide retail company (Anglian Water Business (National) Ltd) and also continues to develop the retail/wholesale trading relationships in a non-separated model.

Thought leadership on water trading

This year, as the founding sponsor, we have continued to work on the collaboration project on *Sustainable Water Stewardship* launched by the University of Cambridge Programme for Sustainability Leadership (CPSL). The main ambition of the research was 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 used 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 built 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

PARTNERSHIPS DRIVING SUSTAINABILITY

Business challenges evolve and customer expectations change. So it's up to us to keep pushing forward and to make the most of every exciting opportunity in the future. We have a role to play in helping to shape a sustainable future and in inspiring others to do the same. We want to lead by example and we have the energy, ideas and determination to build on the momentum we've already created. Working alongside business partners and communities, our initiatives are designed to reshape the way we all relate to water in a variety of ways.

We're already involved in many of the debates and initiatives that are creating a stronger, more resilient future for the east of England.

To do our bit to drive economic recovery and to champion the transition to a green economy, we're working within the Green Economy Pathfinder (GEP) board of the New Anglia Local Enterprise Partnership, and alongside the Environment Agency, local authorities, the CBI and Chambers of Commerce network, and a number of Government departments. Our commitment to helping support delivery of the GEP's goals will help advance the debate on the value of natural capital, explore ways to increase water storage capacity and develop innovative responses to tackling climate change.

We have also chaired the Water and Marine sector of the Government's Red Tape Challenge, are helping other businesses to overcome barriers to economic growth, and are shaping the opportunity to deliver better regulation in our sector. Our new national retail arm, Anglian Water Business, in collaboration with *Guardian Sustainable Business*, hosted the 'Global Water Challenge' conference, bringing UK business leaders together to drive positive, long-term behaviour change.

Managing Director Peter Simpson, together with Lord Selborne (All-Party Parliamentary Group on Water), Sonia Phippard (Director, Water Risk and Flood Management - Defra) and Alan Knight (Environmental Sustainability Director - Business in the Community), answer questions about sustainable water stewardship at an event as part of the University of Cambridge Programme for Sustainability Leadership.

Managing Director Peter Simpson speaking at the 'Global Water Challenge' conference, hosted by Anglian Water Business.

The Green Economy Pathfinder programme is an initiative led by a number of companies (including us), chambers of commerce and academics in our region. Its aim is to help the east of England become a leading hub for green technology and services, and support the country's transition to a low-carbon economy.

HOW WE DELIVER OUR STRATEGIC PRIORITIES

Our Love Every Drop strategy has focused our business priorities. This is how our employees and supply chain partners live and deliver them every day.

A SUCCESSFUL THIRD YEAR OF AMP5

P47

SECURING AND CONSERVING WATER RESOURCES

P48

INCREASING THE RESILIENCE AND RELIABILITY OF OUR WATER AND WASTEWATER SERVICES

P52

MEETING THE NEEDS OF OUR CUSTOMERS

P62

IMPROVING OUR EFFICIENCY AND FLEXIBILITY

P72

MEETING THE CHALLENGE OF CLIMATE CHANGE

P75

PLANNING AND INVESTING FOR GROWTH

P84

WORKING FOR ANGLIAN WATER

P91

IMPROVING THE ENVIRONMENT AND ENHANCING BIODIVERSITY

A SUCCESSFUL THIRD YEAR OF AMP5

In the third year of the current AMP5 period (2010 to 2015), our performance continues to build on the high levels achieved in AMP4 (2005 to 2010)

Once again we have been challenged by the weather. The 2011/12 drought was followed by heavy and sustained rainfall, adversely affecting both operational activity and our assets.

In response to the extreme drought, we brought forward expenditure from later in the AMP to ensure increased resilience and to protect our customers' supplies. Our investments include:

- Developing new sources of water
- Improving our ability to move water around the region
- Protecting the supplies we already have by spending more to ensure we continue our track record of excellent leakage management by improving even more on our performance, as discussed further on page 49

Our planning and investment in innovation and skills meant that we were able to overcome the significant challenges and ensure continuity of service to our customers.

In addition to reinvestment in drought schemes, by investing wisely in the first three years of this five-year investment period, we've been able to reinvest £146 million to further protect the serviceability of our assets. This includes schemes to improve coastal works, help develop our biosolids strategy, augment how we use data, and projects to support our infrastructure and non-infrastructure.

In the first three years of this AMP, we have already reduced embodied carbon in new assets by 39%. Our goal is to halve it by 2015 (from a 2010 baseline)

As we move towards AMP6 (2015 to 2020), we will continue to take measures to safeguard the security of our customers' supplies through continued investment in water stressed vulnerable areas of our region, including partnering with other water companies. These things will be core to our delivery of both our Strategic Direction Statement (SDS) and our Water Resources Management Plan.

In the current AMP period, we are planning to invest £2.3 billion¹ in assets across our region. This year, we continue to focus on the low carbon and low whole-life cost and on-time delivery of schemes while ensuring we meet quality standards. We do this by working collaboratively with our capital delivery partners and supply chain, who are integral to the goals we have set ourselves through Love Every Drop and our SDS.

“The continued drive to deliver an efficient capital programme has enabled us to make choices when there is a need for investment in our assets. The drought is a prime example of us really making our capital delivery process work.”

Chris Newsome
Director of Asset Management

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

SECURING AND CONSERVING WATER RESOURCES

On 5 April 2012, after the driest 18 months in more than a century, Anglian Water imposed a hosepipe ban – the first in the east of England for 20 years. Crucial to protecting supplies in this driest region of the UK was customer behaviour and our own direct action to help secure supplies for the long term. Our research through talking directly with many customers across the region told us that they wanted advice and support on how to be more water efficient.

Our response was, in part, to launch Drop 20 – our biggest ever water-saving campaign. We asked every customer to reduce their use by 20 litres – about two buckets full – each day. In addition to town centre roadshows, advertisements appeared on billboards, bus stops and buses, in newspapers and on the radio. We also partnered with the Royal Horticultural Society (RHS) to launch the Potting Shed campaign where customers were invited to sign up for free water-saving packs for the garden.

Over 30,000 water-saving packs were given away and thousands of people visited the Potting Shed web pages for advice. We also gave away 5,000 free water butts as part of a competition to highlight the campaign. The campaign was awarded a national UK Water Efficiency Award.

Water resources may have recovered since the drought but we continue to encourage customers to save water. The Drop 20 campaign now has a seasonal focus. Its winter incarnation took the form of 'keep your pipes cosy', an appeal to wrap up homes and businesses to prevent leaks and bursts with consequent cost and disruption to customers.

THE POTTING SHED

Developed in association with the RHS, the Potting Shed is a high-profile water-saving campaign. It was created to help change the behaviour of our customers and employees by advising them on how to maintain an attractive garden through drought conditions and at the same time, conserve water. We provided online seasonal water-saving tips for customers and issued more than 30,000 free garden kits packed with water-saving gadgets. We also offered handy hints on creating drought-resistant gardens, and gave away 5,000 water butts through our Nice Butt competition. Designed and delivered in eight weeks, the campaign won the Landscape and Gardening category at the 2012 Water Efficiency Awards run by the Environment Agency and Waterwise UK.

“ In our Drop 20 winter campaign, we urged all our customers to make sure their pipes were properly insulated and their water supply was protected from freezing, before the cold weather arrived ”

Paul Valleley
Director of Water Services

DROP
20

Saving the smart way

We're on target to fit or maintain approaching one million meters between 2010 and 2015. Almost 75% of our customers in the region use a water meter, which puts them in direct control of how much water they use. This helps reduce water and energy consumption as well as cost. On average, metered customers use 30 litres per person per day less water and can save about £100 a year. In a programme that targets the most water-stressed areas of the region, we will fit 183,000 meters by 2015.

The latest technology is also helping customers to monitor their consumption more precisely. We are trialling small display units that can link to our 'smart' meters to help customers monitor how much they use. This puts them in control of how much, or how little, they decide to use. These trials are an important part of our behaviour change campaigns.

Outperformed our leakage target in 2012/13 by 10%

Bits and Bobs

We are currently ahead of our current target to retrofit water-saving devices to more than 87,000 properties. Three years into the five-year programme, we have visited more than 63,000 customers' homes, fitting our Bits and Bobs devices to make toilets, showers and hand basins operate more efficiently. On average, customers are saving 53 litres per household per day. This is in addition to the saving in energy costs required to heat water.

HOW WE HAVE PERFORMED

	2012/13	2011/12
Leakage MI/d	189	199

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

Reducing leakage and improving service to customers

Our leakage performance has improved dramatically since we were privatised in 1989. We now lose 30% less water through leaks, despite our pipe network expanding to connect approximately 500,000 more properties in the region.

Feedback from our customers tells us that reducing leakage from our network is one of their top priorities. In 2012/13 we used cost savings made on other projects to increase spending on reducing leakage above funded levels. In total over the last year we spent £17 million on proactive leakage control and £18 million on reactive leak repairs - taking less time to detect leaks and less time to repair them when we've found them.

The results have been encouraging. In 2012/13 we achieved a leakage level of 189 million litres per day (MI/d). This represents a reduction of 10% below our Ofwat target of 211 MI/d. It also equates to a total loss of five cubic metres/kilometre/day (the volume of water lost per kilometre of pipeline each day), which we believe to be the lowest in the UK.

Additionally, in 2012/13 we recorded the lowest level of water put into supply for over 25 years, having abstracted 4% less water from the environment than during 2011/12. This was due to lower customer demand as a result of the wet weather, the success of our Drop 20 campaign and lower leakage levels.

Other highlights this year include:

We improved the operability of our leakage monitoring system to over 90% - our best performance ever.

We started work on our new leakage and pressure integrated reporting and targeting system, which will improve our ability to detect and control leakage in the future.

All our 62 leak detection technicians deployed throughout the year have undertaken an intensive LTO (Licence to Operate) training programme, recognised as the best of its kind by Lloyd's Register Quality Assurance (LRQA)

A new team now proactively manages and regulates network operating pressures to minimise leakage and bursts. Since the team was established, 43 new pressure management schemes have been completed saving 4.04 Ml/d of leakage.

We launched our state-of-the-art consumption tool - the Survey of Domestic Consumption (SODCON) to create a better understanding of leakage levels and customer water consumption. We also initiated a new study on water consumption.

As well as delivering enhanced leak repairs throughout the region, we sought to set an example to customers on minimising water use and improved our ranking in Ofwat's Service Incentive Mechanism (SIM) for customer service.

Customers occasionally experience interruptions to their water supply as a result of a burst on the water main that supplies their property. We have significantly reduced the average duration of supply interruptions, from an average of 24 minutes per customer in 2011/12 to 14 minutes in 2012/13. In particular we have avoided the major interruptions that affect customers for over 12 hours, our performance on these most severe incidents was our best for five years.

HOW WE HAVE PERFORMED

	2012/13	2011/12
Water supply interruptions	00:14 (HH:MM/prop)	00:24 (HH:MM/prop)
Security of supply index	100	100

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

Security of supply

Our water resources have been under considerable stress due to the dry conditions experienced during the winters of 2010/11 and 2011/12. During this challenging period, we were able to maintain supplies through careful operational management and by drawing on the experience of measures put in place during previous droughts.

Our water supplies recovered quickly in response to the above average rainfall recorded in 2012 and early 2013. This rainfall marked the end of a drought that extended over two very dry winters for significant parts of our supply region. Depleted levels have all now been fully replenished. The overall security and stability of water supply will continue to be a top priority as further supply demand and drought schemes are commissioned.

Maintaining asset serviceability

Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in their assets to maintain service to customers at an acceptable ('stable') level. Failure to maintain levels of service could mean that many millions of pounds are removed from capital maintenance funds in the next regulatory period so that less money is available to fund improvements in the failing assets. It is therefore crucial to maintain the serviceability of our water and wastewater assets at a 'stable' level. By doing that, we maintain our service to customers in the long term.

Our customers told us loud and clear that leaks are a big concern. They don't like to see us wasting resources and not playing our part to conserve water. So we're working hard to keep leakage levels as low as possible.

Willie Abu Judeh
Regional Leakage Manager

In 2012/13, our performance across above- and below-ground assets for water and wastewater was strong. We are now consolidating the improvements we have made to continue to deliver excellent water quality and environmental compliance. Despite extremes of weather during 2012, we maintained our service to customers. We have already started to implement many improvements to ensure we do not let service deteriorate in future, should similar conditions return. We will continue to deliver these improvements in 2013/14.

Our key challenge is to recover our performance to that of a 'stable assessment' for wastewater below-ground assets. Our priority is to reduce the number of internal flooding incidents, recognising the serious impact of flooding on customers' lives and homes, and we are working hard to respond even quicker. As well as working to further reduce the number of blockages we saw in 2012/13, we also want to prevent as many pollution incidents as possible, and to continue the performance improvements we delivered last year.

Working closely with customers and community groups across the region, our Keep it Clear behaviour change campaign (see page 59) continues to encourage people to use proper disposal methods for food and other waste material. As a result, there have been big reductions in blockages and other incidents in the eight areas targeted. We intend to expand this campaign in 2013/14 and include support for customers to help improve water efficiency.

Waste - heading for zero

We're working to eliminate waste across our entire business, which is as much about wasted materials as wasted time and effort.

Our largest potential sources of waste are the sludge and grit left after treating wastewater and what is produced from our capital delivery programme. We are looking at how this can be used rather than sent to landfill.

By developing our management practices, improving education and widening awareness of waste in our business, we can save money, improve recycling performance at work and improve awareness of the issues for our employees at home. A greater awareness of our waste and how we tackle it will allow us to be innovative in recycling and reuse, and will potentially reduce our requirements for raw materials.

Biosolids

Ninety-four per cent of our nutrient-rich biosolids are recycled and used on agricultural land - we sell 350,000 tonnes to farmers in our region every year - enough to treat 200 km² of farmland. A quarter of our biosolids processing capacity will be diverted towards making soil, by composting our by-products with green waste from local authorities.

Construction waste

We set our capital delivery partner, the @oneAlliance, a challenge to reduce waste in everything they design and construct for us. In 2012/13, 98% of the waste produced by @oneAlliance teams was either recovered, reused or recycled. Our special projects team also managed 94% and, in total, that means over 225,000 tonnes were recovered, reused or recycled.

HOW WE HAVE PERFORMED

	2012/13	2011/12
Serviceability water non-infrastructure	STABLE	STABLE
Serviceability water infrastructure	STABLE	STABLE
Serviceability sewerage non-infrastructure	STABLE	STABLE
Serviceability sewerage infrastructure	MARGINAL	MARGINAL

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

INCREASING THE RESILIENCE AND RELIABILITY OF OUR WATER AND WASTEWATER SERVICES

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Safeguarding water quality and supply

Drinking water

Providing 11 billion litres of safe, clean drinking water to our customers every day makes a vital contribution to the public health of our region. We measure the quality of our drinking water with over a third of a million tests undertaken each year. Our 2012 results were excellent, with an overall compliance of 99.96%, exactly the same as in 2011. To read more about our compliance with regulatory standards and our investment in drinking water, see our Drinking Water Quality report, published annually on our website.

As part of our five-year, £123 million¹ programme of investment in drinking water quality, we are committing to proactive catchment management as well as increasing the capabilities at our water treatment works. For example, during 2012 we completed new treatment processes at both our Glandford and North Pickenham water treatment works to treat nitrate levels found in our groundwaters.

We are continuously working to help our customers keep water healthy in their home and business premises. Our approved plumber scheme Aplus has over 1,400 members operating in our

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

We replaced 4,377
old lead pipes across
the region in 2012/13

region. We are also one of the founding members of a new national scheme for approved plumbing businesses. Called WaterSafe, this brings together various UK-based schemes under a single recognisable brand, and provides customers with a free database of plumbing and contracting services that comply with the required regulations. To ensure our customers receive maximum benefit from the scheme, we played an active role in its formation and subsequent launch. More details are available at www.watersafe.org.uk

For the second year running there were no drinking water quality incidents (events classified as 'serious' or 'major' by the Drinking Water Inspectorate) in 2012.

99.96%

COMPLIANCE
WITH DRINKING
WATER
STANDARDS
- THE SAME
HIGH STANDARD
AS IN 2011

Safeguarding public health - leading on lead reduction

During 2012, we identified 22 high-priority areas in our region that have significant levels of lead pipework. As a key part of our approach to lead reduction, we are delivering an integrated package of measures targeted specifically at these areas. Designed to help us meet the new EU limit of 10 µg/l of lead in drinking water,

“Working together with Anglian Water using your expertise in drinking water and our knowledge of families in the high-risk areas will ensure the best outcome for those people potentially affected by lead in drinking water.”

Judy Benns
Public Coordinator - Health Protection,
Bedford Borough Council

“I have been really impressed with the support we have received from the NHS in the Anglian region. If pregnant women and young families can receive our information from trusted sources such as midwives and health visitors, it will only serve to add more impact to our important messages about lead in drinking water.”

Clair Dunn
Lead Stakeholder Manager

these measures will protect public health, an important part of which is to advise customers about the steps they can take to reduce the potential of lead levels in their drinking water

Replacing lead pipes

In the last year we have completed a programme to replace over 2,600 lead pipes in Ipswich. The work was completed on schedule and 92% of customers said they were 'fairly' or 'very' satisfied with the service provided. We are now working in Northampton and Bedford to replace almost 4,500 more lead pipes, and we started pipework replacement in Kettering in April 2013.

Community engagement

We are working with a number of community organisations to help reach all those affected by our lead pipe replacement schemes. Our literature is now available in Urdu, Bengali, Somali and Polish, and a picture format helps to make it as easy to understand as possible. Free promotional material, such as coasters and pencils, are being distributed to help engage with customers, along with an interactive 3D model, which has already proven popular at our customer drop-in sessions.

Working with the NHS to deliver our key messages

Our *Leave lead out of your tap water* leaflet has been endorsed by the NHS and is now jointly branded with their logo. Midwives and health visitors are distributing our leaflets to families living in high-risk areas, and local children's centres and GP surgeries are displaying posters, leaflets and display boards. Together, all these communications are drawing attention to key messages about lead, the potential health risks to vulnerable groups and ways to reduce lead levels at the tap. This promotional work is supported by joint NHS/Anglian Water media activity.

“ Our main aim with this collaborative work is to protect the health of children and families from the risks of lead in drinking water. This can be done most effectively by working together to reach families in the high-risk areas with clear, agreed messages ensuring people receive appropriate advice and guidance without causing any panic amongst the identified vulnerable groups. The literature produced with Anglian Water has really helped get the messages across in a consistent and understandable way ”

Isobel Duckworth

Public Health Consultant (Maternal and Child Health), North East Lincolnshire NHS

Working with local authorities and housing associations

We are working with local authorities and housing associations that have responsibility for social housing and public buildings to promote lead pipe replacement and will continue to do so during 2013

Further information

We offer all our customers a free lead test, which can be arranged by contacting our dedicated Lead Advice Line on 0845 070 3445. Further information can be found at www.anglianwater.co.uk/leadfacts

Investing for a reliable supply

We continued to deliver key drought and supply demand schemes to maintain security of supply. Significant progress has been made to abstract and treat 20 million litres of water per day from the River Trent to supply Lincoln, and to transfer 15 million litres of treated water per day from Grimsby to Boston. Schemes to further improve resilience against severe drought have been

PRIORITIES FOR THE COMING YEAR

To further promote our messages around lead, we plan to reinforce the strong collaborative working relationships we have already established with health professionals, local authorities and housing associations. We welcome all available help and support to influence customers to replace their lead pipes and continue to research customer attitudes so that we can encourage as many as possible to take positive action. We hope to strengthen our position as industry leading on lead, ahead of the next five-year investment period from 2015 to 2020

Toni Holtby

Lead Strategy Manager

identified and are being progressed through the capital delivery process. An additional £43 million has been allocated for drought mitigation measures to 2015

Connections between major reservoirs forming the Ruthamford (Rutland-Grafham-Pitsford) supply system are improving following major investment. This will allow for best use of resources during any future drought. New groundwater resources are being developed at several locations in Norfolk. This will secure growth in and around the east of England as a result of drought and licence changes imposed under the Environment Agency's Restoring Sustainable Abstraction Programme. The drilling programme extends to seven new boreholes, five of which have been drilled and test pumped, with encouraging results

Our next Water Resources Management Plan is under development and will identify investment needs for the 25-year planning period starting in 2015. This plan will demonstrate the need to invest further in demand management and supply side schemes. The plan will account for the impact of population growth and climate change. In addition, we are anticipating the requirement to invest in schemes that reduce the impact of abstraction on the environment.

During the year our Water Resources Management Plan 2014 has been drafted for public consultation. It sets out our strategy to maintain the balance between water supply and demand over the period 2015 to 2040.

Our draft Drought Plan 2013 will be extended to further understand any environmental impact associated with our proposed drought measures, and will be issued for consultation in summer 2013.

Our upstream water resources will be secure in 2013, but we will continue to deliver capital schemes to secure raw water at direct river intakes during any future severe drought.

Resilient wastewater and drainage services

In 2012, the compliance level of our wastewater treatment works was 98% - an increase of 1% on our 2011 level. The number of serious wastewater pollution figures fell by two thirds from nine in 2011 to just three in 2012.

In the past year, the water industry has worked closely with the Environment Agency to update the reporting of environmental pollution incidents. Much of this work is reflected by the cutting-edge processes already in place in our region. Putting an even greater focus on reporting, in conjunction with our Keep it Clear campaign, will add momentum to our overall goal of 'no pollutions'. We are also investing in enhanced IT systems for more effective management of our laboratory and regulatory water quality data.

In recent years, we have taken a lot of steps to achieve lower levels of sewer flooding. These include our Keep it Clear campaign, higher levels of sewer cleansing, our 'blue light' response to reported blockages and our removal of interceptors ('u-bends' in the sewers that can impede flow). Because of the very high levels of rainfall in 2012, the number of sewer flooding incidents actually rose. We are confident that when we return to more typical weather the impact of our action plan on flooding numbers will become apparent.

ROUND-THE-CLOCK RESPONSE

In response to the peak flooding during the 2012/13 Christmas and New Year holidays, we opened our Incident Room, staffing it around the clock to support and help customers. More than 110 tankers were deployed 24 hours a day, each with a capacity of up to 28,000 litres. Jobs were prioritised for those customers recognised to be at greatest risk of flooding, with staff on the ground working to protect customers' properties. We spent £600,000 on non-routine tanker operations in just 10 days over the holiday period. One community, in Peterborough, commented that our actions "saved Christmas".

HOW WE HAVE PERFORMED

	2012/13	2011/12
POLLUTION INCIDENTS (SEWERAGE) (INCLUDES SURFACE WATER OUTFALL)		
Category 1 to 3 Incidents per 10,000km of sewer	100	116
Non-compliant incidents only	55	73
SERIOUS POLLUTION INCIDENTS (SEWERAGE) (INCLUDES SURFACE WATER OUTFALL)		
Serious sewerage pollution incidents (category 1 and 2) per 10,000km of sewer	0.7	2.0
Non-compliant incidents only	0.7	1.6
POLLUTION INCIDENTS (WATER)		
Discharge permit compliance	98.1%	97.1%

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

2012 was the wettest year for the Anglian region since records began in 1910. This is a marked contrast to 2011, which was the second driest.

Environment Agency

HOW WE HAVE PERFORMED

	2012/13	2011/12
Satisfactory disposal of sludge	100%	100%
Sewer flooding incidents	204	101

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

PRIORITIES FOR THE COMING YEAR

We will maintain progress on the development of models to help us better understand risks in drinking water catchments due to agriculture and other activities. In addition, we will continue to shape our integrated catchment strategy for the next five-year AMP period from 2015.

The development and continued roll-out of our Keep it Clear campaign produced great results in reducing the overall number of blockages in pipes and sewers. We continue to target specific areas that are blockage hot-spots and engage and work alongside local communities and stakeholders. By promoting shared responsibility and best practice our goal remains a sustained change in perception and behaviour towards the use of the sewerage network.

Tighter monitoring for better management

The exceptional rainfall and intensity of storm events caused a number of significant challenges and put pressure on the operation of our network. Despite the overall reduction in blockages, the number of properties affected by flooding events increased and remains a key area of focus for next year. Through further flow monitoring, modelling and initiatives such as the blue-light response scheme (which sees high-risk properties responded to as a priority where a risk of internal flooding has previously been identified), we intend to reduce the number of incidents by ensuring we identify and respond to properties at risk of flooding. The weather also impacted our pumping stations with a greater number of asset failures, and increased power costs and extra tankering to cope with the heavier flows.

Managing our network expansion

2012/13 was the first full year of integrating the transferred private sewers into our network. This increased the network by 70% and added a significant increase in workload. We continue to monitor work levels very closely as we develop our understanding of the transferred assets and capture the impact and cost of the transfer. Alongside the increase in work overall, the daily variation in demand provided a challenge and often stretched our service. So we took the opportunity to reorganise our teams and create a regional collection department. This focuses on operating the entire sewerage network and on resolving customers' issues. We hope this approach will help to build upon our industry-leading position.

The sewer transfer regulations will also result in the adoption of an estimated 3,000 private pumping stations by 2016. There remains a lot of uncertainty over the exact number and whereabouts of these assets, and we continue to identify and locate them. We also began a programme of detailed site surveys to determine what condition they are in and what repair work will be required before 2016. The results of these surveys will inform and shape our adoption programme.

We saw a significant improvement in the compliance of our treatment works with a reduction in the number of failing samples and works. This was supported by a programme of enhanced process monitoring and the collection of vital data to enable us to operate our works more effectively and intervene before major issues occurred. It also helps us to optimise our works and identify process improvements or inefficient plant.

Setting new targets for combined heat and power (CHP)

The high and variable demand for emergency storm tankering impacted on our ability to maintain a steady supply of sludge to our treatment centres and to generate a consistent and stable gas supply to operate our CHP engines. This was exacerbated by a lack of reliability across the fleet of engines at certain key sludge treatment centres. As a result, we did not achieve our annual target on CHP production, further impacted by a decrease in the price of ROCs (Renewables Obligation Certificates). In future, we will seek to increase and stabilise our CHP performance. A key element is the addition of new engines at Whitlingham and Cotton Valley and increased resilience through the retention of critical spares.



HIGHLIGHT OF THE YEAR

While the level and intensity of rainfall during the year put great pressure on our operations, we made some significant achievements. We continued to deliver an excellent service to our customers as shown from our SIM (Service Incentive Mechanism) position. We saw a significant improvement in our compliance and the quality of our treatment works. Blockages in our network reduced considerably, showing the benefits of our innovative Keep it Clear campaign.

Biosolid marketing and development

We had a record year for farm sales and continue to increase our annual income from our biosolid products. We also continue to improve the quality of our products to an enhanced standard through advanced anaerobic digestion. However, we have concerns that this growth may not be sustainable due to the increasing restrictions to agricultural outlets for biosolids. The water industry has become increasingly reliant on both a diminishing land bank and minimal food chain stakeholder endorsement beyond the farming industry. We, along with the rest of the industry, are actively engaging with the Government to seek reassurance against the risk of further exclusions and ensure our biosolids products are perceived as competitive with other options through the development of a quality assurance scheme.

PRIORITIES FOR THE COMING YEAR

Within wastewater, the three key areas of focus are serviceability, service and efficiencies underpinned by the safe operations and actions of our people.

We will work hard to attain a 'stable' serviceability assessment for infrastructure by creating a comprehensive action plan based upon greater visibility of our asset performance and proactive operations.

On service we will focus on creating flexibility and certainty for our customers and consistency of delivery.

We will drive efficiency throughout our operations, but key areas of focus are energy production, tankering, sludge treatment and haulage.

Keep it Clear

The sewer network plays one of the most important roles in the protection of public and environmental health. Yet it is in need of some protection itself.

Half the blockages in our sewer network are avoidable, caused by people putting non-flushable items (wipes and sanitary waste) and fats, oils and grease down toilets and sinks. Some 80% of sewer flooding in homes and environmental pollution incidents is as a result of a blockage. By reducing avoidable blockages, we reduce the risk of these incidents happening.



HIGHLIGHT OF THE YEAR

A year of recognition. We won the Fats, Oils & Grease Reduction Initiative of the Year award at the Water Industry Achievement Awards, and the Sustainable Communications category at the Environment and Energy Awards 2012. We were finalists for the Marketing Initiative of the Year in the Utility Industry Achievement Awards 2012.

Where is Keep it Clear in our region?

KEEP IT CLEAR

Our Keep it Clear campaign is changing people's behaviour. Our overarching key objective is to halve avoidable annual sewer blockages by 2015 from 2010 levels.

The campaign is already proving very successful. An average of 51% in blockage reductions has been achieved across the eight locations targeted to date, compared to the previous three-year average. There have been 5% fewer sewer flooding incidents caused by blockages in Keep it Clear areas compared to the previous year, and 32% fewer pollution incidents.

When surveyed, 80% of customers in the target locations said they are now concerned about sewer pipe blockages. This is an 11% rise from 69% previously, and 27% fewer sanitary products are now flushed down the toilet compared with before.

To date, 153,800 personalised mailers have been sent out, more than 100,000 customers have been directly and indirectly reached through community outreach with voluntary organisations, and more than 500 food service establishments have been visited.

We reached our interim target to reduce avoidable blockages by 20% in 2012 (from 2010 levels). Our focus now is to target more blockage locations with the goal of reaching and sustaining our overarching key objective.

Delivered new sewerage systems in 23 rural communities to connect them to mains drainage for the first time

Look out next year for how we are changing the way we think and talk about wastewater in the water cycle

Safeguarding our assets

During the year we have demonstrated robust resilience in the face of a number of challenges

Our ongoing aspirations

In terms of longer-term planning, we are factoring resilience into our strategy for AMP6 (2015 to 2020). Our aim is to ensure that our future investment remains customer focused, service focused and externally – as well as internally – driven

Dealing with extreme weather

The past 12 months have seen some of the most extreme weather conditions in our region. According to the Met Office, the past year has been the second wettest on record in the UK since records began in 1910. Total rainfall for the UK during 2012 was 1,330.7mm (52.4in), just 6.6mm short of the record set in 2000.

In response we opened our incident room for much of November and December 2012 to coordinate our response to the floods. Our customer workloads were at times 200% up on what we would have expected at this time of year, and our alarm volumes were up over 300%.

We were extremely proud of how all our teams responded – from the field operation, our Operational Management Centre, customer services and media teams. Everyone worked hard to deal with the challenges facing our customers, as well as many operational challenges too. Many people's Christmas holiday plans were severely disrupted to achieve this.

Testing our response

Exercise Cascade was an internal exercise designed to test the filling and deployment of different means of alternative water supplies. This included Arlington combination boxes and static tanks using one of our 20,000-litre water tankers. Exercise Cascade has been rolled out over the year, giving our network technicians a first-hand opportunity to learn, and ensures we

are well placed to quickly respond in the event of a supply interruption, and that customers' service can be restored quickly and efficiently.

Mitigating risk in our supply chain

We are working closely with our supply chain to better understand levels of resilience to avoid interruptions to the supply of goods and services that could impact our operations in future. Initial resilience assessments will be completed by summer 2013, and we will continue to work with our partners to reduce and eliminate risks, and also to ensure that contingency plans are always put in place.

Risk assessments have also been carried out for each of our framework partners to assess the impact and likelihood of supply failure. As a result, a total of 41 supply chain partners across 50 framework agreements have been identified as being either of medium or high risk.

FLOOD RESILIENCE

Part of our resilience and climate change strategy for AMP6 is to improve the protection from flooding of 20 key water sites. The first of these schemes has now been completed. The work at Raithby Water Treatment works was fast-tracked to fit in with other developments on the site. This meant that we could create the new flood protection bunds around critical parts of the site under an existing licence to work around protected great crested newts, saving time and extra cost. Another four sites will have their resilience solutions constructed next year and the remainder are nearing design completion.

Customer service and external recognition

Disruption comes in all shapes and sizes, from severe weather to loss of power

The new international standard, ISO 22301, provides the framework that enables us to identify potential risks to our company and how we would respond to them

We were one of the first companies to successfully transition from British Standard (BS 25999) to International Standard (ISO 22301) in November



HIGHLIGHT OF THE YEAR

We were the first water company in the UK to receive the ISO 22301 certification for our Business Continuity Management System - a measure recommended by the Pitt Review in 2008 following the severe flooding of 2007

DEMONSTRATING RESILIENCE DURING THE 2012 OLYMPIC GAMES

While the Olympic Torch was in our region - a total of 11 days between 26 June and 9 July 2012 - we put in place a stringent reporting regime to address any operational issues around the route. Despite both our NetSupport and DSM Workplace Recovery Centres being on 'heightened alert', no major incidents took place. We implemented an event management plan while the Torch crossed Rutland Water on 3 July 2012. The Torch changed hands midway across the reservoir, with no mishaps.

Robust preparation also took place ahead of the Olympic event being held in our area - mountain biking at Hadleigh Farm in Essex. The pumping station at the site was carefully checked by our maintenance team prior to the start, and spares were stored at a nearby site to avoid any potential disruption. We also contributed to the Venue Infrastructure Coordination Centre, which managed all utility industry liaison throughout the Games.

MEETING THE NEEDS OF OUR CUSTOMERS

Developing long-term business plans with our customers

We have been conducting extensive customer and stakeholder engagement to help us develop our five-year business plan for 2015 to 2020 and to help shape our long-term strategy

We want to know what our customers think, and what their priorities are for the future of water services in years to come. We're asking them to help us find the best possible balance of priorities, while delivering high-quality customer service and keeping bills affordable.

We talk to thousands of customers every day, and in addition to our detailed research, have spoken to thousands of customers through focus groups, telephone interviews, deliberative workshops and interviews at county shows. Investing time and expenditure on this level of market research means we can find out what matters most to our customers about what we do and how we should operate in the future.

In January 2013 we launched our biggest ever public consultation to seek the views of our customers on their priorities for the future of water services across the east of England.

Our dedicated website - www.discoverdiscussdecide.co.uk - detailed background information on the key issues, live discussion forums, quick polls and a device called My Water 2020. This was an online simulator that calculated the best balance of potential future investment in 10 key areas and the likely impact on customer bills and on our carbon footprint.

Among other issues, the consultation asked for customers' views on the size of their water bills, investment priorities to enable growth, spending on environmental protection, and how much we should spend on our equipment above and below ground to drive down leakage and guard against extremes of weather and flooding.

The outcome of our consultation will feed directly into the business plan we submit to Ofwat for the period 2015 to 2020, which in turn will determine the level of future water bills and how much we can invest in infrastructure across the east of England. In the five-year period to 2015, we will spend over £2 billion, one of the largest private investments in the region, so we want to make sure our case for future spending is robust, and driven by evidence-based customer choices.

The consultation lasted for nine weeks and closed on 24 March 2013. It was widely publicised through the print and broadcast media, social media, customer bills, drop-in exhibitions in town centres across the region, workshops with young people and radio advertising. We are grateful to all the business leaders, charities, elected representatives, local authorities and other organisations that promoted the consultation to their members, employees and networks. This helped to encourage many thousands of people to participate and to have their say.

PRIORITIES FOR THE COMING YEAR

Findings from the consultation will help us to develop our long-term strategy and business plan for 2015 to 2020. We will issue a report in summer 2013, recommending how best we think the different choices can be balanced and to ask customers for feedback on our ideas. We will spend the autumn refining our plans in light of the comments we receive, then in December will publish our final business plan and submit it to Ofwat. The final plans approved by Ofwat will confirm customer tariffs, as well as levels of investment between 2015 and 2020.

We continue to work with our independent Customer Engagement Forum – a new body set up to advise and challenge us as we prepare our business plan – to ensure that customers' views are at the heart of our plans. The Forum will report to Ofwat in December 2013 on how well we have responded to customers' priorities.

The independent Forum is chaired by Dame Yve Buckland and supported by four Independent Advisory Panels who bring together representatives with expertise from different interests and organisations across our region. These panels have met three or four times this year and, in February 2013, held a joint panel meeting to contribute to our strategy development. We are grateful for their advice and support and look forward to working with them next year.

Watch this space – we're reviewing and refining our Love Every Drop goals and commitments this year to reflect the outcomes and customer-focused business plan we'll submit to Ofwat in December 2013.

Our biggest consultation ever: Managing Director Peter Simpson talks to customers about the future of water services.

SOCIAL MEDIA TO SUPPORT CUSTOMERS

This year we have augmented our social media and digital support for customers, further increasing customers' satisfaction levels. Twitter and Facebook are now used on a daily basis to interact with customers, answering queries and promoting campaigns. Similarly, text messaging is used to communicate with customers, keeping them informed about work progress. In the first three months of 2013, we went from a standing start to the most 'liked' water company on Facebook. A library of customer self-help videos was created in 2012/13, with new content still being added regularly, while 'live chat' now features on our website, providing customers with multiple channels for support and service.

Our customers rate our service as the best in the industry, as measured by Ofwat's independent customer satisfaction survey.

We continue to listen to our customers and remain focused on what they say. Their opinions are really important to us and are crucial to helping us to continually improve our service. Last year, we spoke to over 35,000 customers to ask their views about the quality of the service we provide, and how we can improve it further.

This year, we have developed new customer-facing communication channels, and have an active presence on Twitter and Facebook for those customers who prefer social media. We have also introduced a virtual assistant, Amanda, on our website to make it easier for customers to do business with us. In December, we also launched a 'chat' option to help customers having difficulties using our website, at the same time offering interactive assistance and support.

Our UK-based contact centres in Huntingdon, Lincoln and Hartlepool continue to focus on giving friendly and professional service to our customers.

Our back-office operations have worked hard to reduce turnaround times for emails and written correspondence, to better match customer expectations.

Almost 75% of our customers now pay for their water via a meter. This is the highest level of metering among the major water and sewerage companies in the UK, and we are committed to fit and maintain more meters next year.

HOW WE HAVE PERFORMED

	2012/13	2011/12
Service incentive mechanism	85*	79*

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

*out of a possible 100

Our Bits and Bobs water efficiency campaign has been a great success. Three years into the five-year programme, we have now visited more than 63,000 homes, saving customers (on average) 53 litres per household per day.

“ This year our customers have rated us as the best provider of customer services by a water and wastewater company as measured by Ofwat's customer experience survey. We are enormously proud of this and are determined to keep pushing ourselves to reach even higher standards. We don't get it right every time so we will continue to listen and respond to our customers, to ensure we keep driving towards our ambitious goal of 100% of our customers 'very satisfied' with our service. ”

Martyn Oakley
Customer Services Director

ALMOST
75%
OF OUR
CUSTOMERS
NOW PAY FOR
THEIR WATER
VIA A METER

Measuring customer satisfaction

As part of Ofwat's Service Incentive Mechanism (SIM) – which captures both quantitative and qualitative data – 200 customers are contacted every quarter and asked about their experiences of dealing with us. The survey covers all aspects of the service they received, from how easy it was to contact us to how well we tidied up when our work had finished.

Following some excellent customer service training delivered to all operational field staff this year, our customers' satisfaction levels have increased. 90% of customers said they were very satisfied with the service they received, an increase of 28% over the last two years.

During this same Ofwat survey, customers are also asked about their satisfaction with our speed of response. Over the last two years this increased by 17%, with 83% of those who responded saying they were very satisfied. Over the same period, the satisfaction with being kept informed has also increased, up by 22% to 88%.

Overall, the results show we lead the way in customer satisfaction. Not only were we scored best water and sewerage company this year, but we secured first place overall within the industry for the 2012/13 period.

In another market survey, our Voice of the Customer team spoke to over 35,000 of our customers. Over 95% of those who responded said that overall they were satisfied, or better, with our service.

Speeding up response times

Comments and ideas from our customers are shared with managers across the business. In line with the customer expectations, response times for dealing with particular service issues have been reviewed, and timescales shortened. This year, we have also introduced the use of social media and text alerts as a method of communicating with, and listening to, our customers. This has made communications much faster and more interactive.

Another significant measure of our commitment to continually improving our service is our complaint record. The Consumer Council for Water (CCW) – the body representing the interests of commercial and domestic water customers – has investigated fewer complaints against us this year, down to four from six in 2011/12 and 22 in 2010/11.

Putting it right when we get it wrong

Our UK-based contact centres and our back-office operations continue to deliver an excellent quality of service. Unfortunately from time to time, things do go wrong. When they do, our dedicated customer relations team is on hand to ensure a speedy resolution. The team telephones the customer wherever possible to discuss and resolve the issue at first point of contact. This, together with some improved employee training, has led to further improvement in the number of complaints we are resolving at the first attempt. The team reviews the individual issues, then using their knowledge and experience, challenges the wider company where necessary to ensure the appropriate prompt action is taken to resolve any problems. Over 98% of our complaints are dealt with at that first attempt, resulting in improved customer satisfaction.

Tariffs and affordability

With continuing pressure on many family budgets as a result of the economic downturn, we want our bills to be affordable and our service to represent good value for money

Our tariffs are designed to be simple and easy to understand, so that customers can manage their consumption and choose the best tariff for their personal circumstances. Our website has information about our WaterSure and AquaCare Plus tariffs for customers managing medical conditions or in receipt of certain state benefits

We have been improving the way we promote these tariffs to our customers and the uptake is increasing year on year. In 2012/13 41,574 customers were registered, that is up from 20,500 in 2011/12. In 2009/10 there were fewer than 12,000 registered

From time to time some of our customers need extra special care – like kidney dialysis patients who have a dialysis machine at home, nursing mothers or customers who are frail, elderly or disabled. More than 11,500 customers are registered for our WaterCare service, which offers water when supply is interrupted, special tariffs, reassurance against bogus callers and alternative ways of getting bills and information

As well as helping our customers to manage their demand for water, we want to provide support to those customers who may struggle to afford their bills. With this in mind, we have been examining ideas that address affordability, with a view to consulting with our customers on proposals for a tariff structure that would offer assistance for the most vulnerable groups

Our contribution of £600,000 into the Anglian Water Assistance Fund helps people in our region suffering genuine hardship

The Anglian Water Assistance Fund offers help to people experiencing genuine and particular hardship. Its aim is threefold

- To administer a grants programme to reduce water and sewerage debt
- To make awards to help people recover from debt and become financially more stable
- To make a long-term difference to applicants' financial situations

Bad debt continues to be a challenge in current economic conditions. By addressing affordability, we expect to make further progress in keeping to a minimum the burden bad debt places on paying customers

TAILORING TARIFFS TO BUDGETS

WATERSURE

The WaterSure tariff benefits metered properties where customers may experience particular hardship and need to use large amounts of water. While it has a higher annual standing charge than the standard option, there is no charge for the volume of water used.

AQUACARE PLUS

The AquaCare Plus tariff is another tariff for metered homes that may experience particular hardship and need to use large amounts of water. The standing charge is higher than the standard fixed annual option, but it charges less for the volume of water used.

We have been improving the way we promote these tariffs to our customers and the uptake is increasing year on year. In 2012/13 41,574 customers were registered, that is up from 20,500 in 2011/12 and from 12,000 in 2009/10.

Meeting the needs of our business customers

This year has been the first full year of operation for Anglian Water Business. We have expanded our account management team to provide more business customers with face-to-face advice and assistance. As a result, we have been more proactive in spotting opportunities for customers to make efficiencies and have been offering guidance in achieving these.

Sustainable and successful water strategies

In line with our Love Every Drop commitments, our team of business account managers encourages customers to develop sustainable water strategies with targets for reducing water consumption, and associated energy and carbon, thereby achieving financial savings too. We help guide them through the process – from understanding where and how water is used across their premises, to setting and achieving targets.

In March 2012, Bedford Council became the first local authority to sign the Anglian Water Business Promise, making a public commitment to reduce water consumption in council buildings by 20% by 2015.

North Lincolnshire Council followed soon after with a commitment to cut water use in council buildings by 20% by 2016, potentially saving around £350,000 over four years.

We fully support the introduction of competition for business customers and the opening up of the market in 2017. This year, we led the way with our 'Global Water Challenge' business conference in London. Bringing together business customers, stakeholders and other like-minded organisations, we facilitated a stimulating debate about the value of water.

There is a lot of work to be done, but I am confident that we can achieve these savings. It is not only good for the purse, but the environment too. We want to set an example in the Yorkshire and Humber region and it is only right and proper that we get our own house in order, before we can expect others to do the same.


Liz Redfern
Councillor, North Lincolnshire Council

Mayor of Bedford Borough Dave Hodgson (right) signs a water pledge with Director of Anglian Water Business, Bob Wilson.

Joining forces to become a leading national retailer

To prepare for competition, our retail arm Anglian Water Business was established in 2011. Until March 2013, our Scottish retail business was operating under the Osprey Water brand, but has now been merged with our English retail operation under a single identity. This underpins our national brand.

We have been developing new ways to improve service levels and help our customers cut their water consumption and costs, including services such as consolidated billing. We have implemented a new Customer Relationship Management system to support business growth and help to improve customer satisfaction.

 *We greatly appreciated Anglian Water Business's support for the Rippleffect scheme, which helped their business customers to significantly reduce water consumption. The work with Anglian Water Business has been used as a model to demonstrate the benefits of the partnership approach, which enabled us to engage with businesses in a more cost-effective way. We are very pleased with the water and cost savings the partnership has helped businesses to achieve.*

Carl Nichols

Head of Business & Markets,
WRAP

The added value offered by Osprey Water has been a deciding factor in winning contracts from some big names. Customers in Scotland include Asda, Starwood Hotels, which runs the Sheraton Grand Hotel and Spa in Edinburgh, and Greene King, which runs Scotland's Belhaven pub chain. Greene King has just agreed to extend its contract with Anglian Water Business in Scotland for another three years, and signed up to a 'water pledge', promising to cut consumption by 10% in the next three years across their sites in Scotland and the Anglian region.

MAKING RIPPLES IN THE SME SECTOR

We've teamed up with government-funded resource efficiency experts WRAP (Waste and Resources Action Programme) to offer small and medium-sized enterprise customers the Rippleffect - a free water-efficiency support package to help businesses to cut their water consumption and bills. It's another way in which we can promote the importance of saving water and targets water efficiency support to a greater number of customers.

The support package provides practical advice for businesses to help them understand how much water they use, identify simple ways to save money, measure their water and cost savings and learn about 'quick-win' water-saving devices.

Businesses registering for the service are provided with access to online self-help modules, web conferences and webcasts. Telephone support is also available.

Significant savings have been achieved by our Rippleffect customers - 63,000 cubic metres at the end of November 2012, with a further 40,000 cubic metres of potential savings identified that have not yet been implemented.

Addressing the global water challenge

The rising pressure on global resources was the context for a national conference hosted by Anglian Water Business in association with *Guardian Sustainable Business*

The 'Global Water Challenge' focused on water use in the supply chain, and the event provided a strong platform for businesses, non-governmental organisations (NGOs) and stakeholders to share strategic thinking and best practice around sustainable water use. Sustainability experts from global companies such as Diageo, Marks & Spencer, Coca-Cola and PepsiCo shared collaborative models of good practice.

Participants were all encouraged to make specific commitments to help tackle the global water challenge. The conference was preceded by a round-table discussion hosted by *The Guardian*, in association with Anglian Water Business.

Reporting on the round table, *The Guardian* journalist Mark Hilsdon commented, "The event looked in particular at the pivotal role that businesses can play in addressing water scarcity in the UK, not just by closely monitoring their own consumption but also by working with their suppliers, and ultimately influencing the thinking of domestic consumers too."

One participant captured the mood of the debate: "Over past decades, water has not been a constraint to industry but now, as it becomes a more limited resource, it is becoming ever more important."

“ I think there is a common understanding that businesses, particularly larger ones, have to take responsibility for the environmental impact of their supply chain as well as their own operations ”

Michael Alexander
Diageo

The 'Global Water Challenge' conference featured a panel of experts – Marcus Norton (Carbon Disclosure Project), Jonathan Foot (EDF Energy), David Bellamy (Food and Drink Federation), Matthew Pluke (Anglian Water), Andy Wood (Adnams) and Richard Swannell (WRAP).

“ It's about realising the true cost of water it's not just what you pay on your water bill ”

Angela Murphy
Butcher's Pet Care

SERVING ASDA RIGHT

Asda is one of Britain's leading retailers, serving around 18 million shoppers a week through its network of more than 500 stores and depots across the UK. To save time and money on bill processing, we have been providing Asda with a single consolidated bill covering all their sites in the Anglian region since 2010. We have also allocated a single point of contact in our billing team to look after their specific needs. Asda recognised our efforts with their Most Improved Supplier Award, and remarked on us being a proactive water company in the market. We have since strengthened our working relationship, by allocating Asda a dedicated Account Manager to provide ongoing proactive support for keeping water usage and bills to a minimum.

... The team from Asda procurement with Anglian Water Business staff at Asda's Peterborough store, following a water audit of their bakery

Water for health, leisure and recreation

A season that started in severe drought and concluded after the wettest summer in 100 years proved quite a challenge for our recreation park teams. March 2012 saw tremendous efforts to extend pontoons and make conditions safe for hundreds of amateur and competition-class anglers to get out onto what Mark Lloyd, Chair of the Angling Trust, referred to as, "some of the best game fishing lakes in the UK". His comment has been further reinforced by the results of a recent poll among *Total Flyfisher* magazine, who voted our lakes their 'favourite large stillwater fishery'.

Despite the severe weather, many visitors came to Rutland Water, taking part in over 400 competitions, charity and local events across our parks.

The Olympic Torch crossed Rutland Water, the only location in the UK where the torch was passed between torchbearers on water. The crossing was witnessed and celebrated by over 2,000 children from county schools who held an activity day on the shores of Rutland Water.

Grafham Water has been selected by the British Triathlon Association to be the Olympic distance European championship qualifier event for 2013.

Celebrations to commemorate our second green flag

The prestigious green flag, the national benchmark standard for park management, which we retained at Rutland, was awarded for the first time to our Grafham Water site last year. To mark our new status, green flags are now flown at Grafham Water to demonstrate to visitors that we are a well-maintained and well-managed park, providing excellent facilities for all the family.

Heritage Orchard created at Rutland Water

In 2012, 60 different varieties of apple tree were planted on the shores of Rutland Water – one for each year of the Queen’s reign – as a lasting reminder of the Diamond Jubilee.

Our Managing Director Peter Simpson planted the final tree at the official opening ceremony, assisted by Dr Laurence Howard, the Lord Lieutenant of Rutland.

Called the Heritage Orchard project, the undertaking was very much a team effort on the part of our employees, along with volunteers from Brooke Primary School in Oakham, the Stamford Community Orchard Group and the Leicestershire and Rutland Wildlife Trust. The orchard has been planted in ‘blossoming order’ so that the trees will bloom one after another, all the way down to the water’s edge.

Dennis Smith of the Stamford Community Orchard Group, Managing Director Peter Simpson and Dr Laurence Howard, Lord Lieutenant of Rutland plant the final tree at the new Heritage Orchard on the shores of Rutland Water

PROUD TO BE PART OF IT

Early last year we were offered the chance to have an employee take part in the London 2012 Olympic Torch Relay as part of our corporate relationship with Games’ sponsor Lloyds TSB. Client Project Manager Matt Humphrey beat many hopefuls to this once-in-a-lifetime opportunity for his work on Love To Help school days promoting STEM (science, technology, engineering and maths) to young people. Read more about Love to Help on page 97.

“In a year of great success stories and experiences from all our parks, the real highlight has been the once-in-a-lifetime opportunity to have played a small part in the success of the 2012 Olympics”

Jake Williams
Recreation and Access Manager

IMPROVING OUR EFFICIENCY AND FLEXIBILITY

Improving our efficiency and flexibility

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

In a year when we faced significant cost pressures including those of energy prices, cost inflation, our obligations following the transfer of private sewers and the changes to the Carbon Reduction Commitment, we have continued to drive initiatives that will help to mitigate any increase to our cost base. For example, our energy initiative, and our drive to find greener ways of producing and using energy, continues to deliver significant savings in both cost and the levels of energy that we use.

The planning processes that we use to deliver our capital programme are once again focused on designing solutions that will help us move towards our goal to halve embodied carbon, along with a reduction in the associated costs. We have increased our use of 'no dig' techniques since AMP4 to drive lower carbon solutions. From an AMP4 base of 5%, we now see over 65% of our mains rehabilitation delivered through non-intrusive methods.

We are on track to achieve our goal to halve embodied carbon by 2015. So far in this AMP, we have achieved a 39% reduction in embodied

carbon, as measured against our 2010 baseline, which we have delivered through intelligent design and standard products.

Capital delivery

Delivering the planned capital programme to time, cost and desired quality remains a key business driver for us. Working collaboratively with our capital partners has facilitated new ways of working and lower waste and carbon levels, while allowing an enhanced focus on better customer service. Our approach continues to deliver new ways of reducing costs, improving our efficiency and increasing our operational flexibility. Our underlying principle is always to develop the right solutions for the right application, harnessing the most appropriate commercial models to ensure the most efficient delivery.

We have invested
£1.2 billion in asset
improvements
already in this AMP

Robust capital delivery planning

The robust common delivery process used in capital delivery continues to be one of our key AMP5 initiatives. Alongside other initiatives, such as the widespread use of standard products, it enables more efficient and carbon friendly delivery of solutions. We have seen great success at sites around our region, such as Raithby.

By making carbon the first thing we think about – minimising embodied and operational carbon through definition, optimisation, integration and design – we have been able to deliver excellent results in the last three years.

Some of our wastewater treatment works are expanding by up to 20% in response to growing demand. However, due to the implementation of more innovative design solutions, we forecast they will cost less to operate after this expansion than before.

Collaborative working

During 2012/13, we sought to build on the working relationships we have established across our supply chain by continuing to hold regular supplier events. These events are designed to help our teams and our suppliers better understand our goals and to find better ways of working together to achieve them.

We have worked to ensure that our partners understand our commitment to low 'whole-life cost' solutions, which are focused on minimising operational and embodied carbon footprints, our goals under Love Every Drop and, above all, meeting our health and safety procedures.

IRIS – KEEPING AN INTELLIGENT EYE ON OUR REMOTE ASSETS

The IRIS programme is as much about business change as it is about replacing the telemetry system we use to run our business.

With more than half a million monitoring points and 28,000 telemetry pictures to replace, the scale of our ambition is huge. Migrating our ageing, standalone system onto a new integrated platform is a highly sensitive and complex procedure. How to surgically remove the heart of our business while keeping it beating is a significant challenge. But it's critical to improving data quality so we can better understand how our asset base is performing.

IRIS has introduced more effective, risk-based intelligent alarms and new performance reports so we can maximise the benefit from our telemetry system. We can now pinpoint poorly performing assets to prioritise sites, concentrate on high-risk locations and define proactive interventions to get things working again.

Although proud of our industry-leading record on leakage we're not standing still. Our new integrated leakage and pressure management system will link up with 30 other data sources and systems to create an overall picture of how our network is performing so we can detect leaks quicker and improve our response times.

We will leverage these innovative new systems to exploit the value from them to make us more efficient, effective and proactive in how we manage our assets and provide excellent customer service.

Step change in innovation

Our goal to halve the embodied carbon in new assets we build has resulted in many examples of step change innovation. Alternative materials such as plastics have been used instead of traditional concrete and steel. Waste material has been reused on site as opposed to transporting it long distances for disposal. Existing assets have been enhanced or reused in some way rather than building brand new structures, and many engineering products and components have been made off site in controlled factory conditions, saving energy and carbon that would be wasted with in situ construction techniques.

And with all these examples we have reduced construction costs, which help us achieve our financial and environmental goals at the same time.

Carbon in the supply chain

We have continued to promote carbon management within the supply chain, with a focus on encouraging all framework partners to work towards carbon certification standards. We segmented all our current framework partners into low, medium or high emitters of operational carbon and then held workshops and promotional events with those in the high emissions category. The objective of these sessions was to create a timetable for certification of compliance. This has helped us to monitor our supply chain in terms of carbon reduction, and to recognise enhanced performance and innovation. The measures that we now have in place will also help us to identify those partners that need more support to achieve the necessary carbon reduction standards.

.....
We have installed
500 monitors to help
prevent pollution
to the environment
.....

“ *Collaboration across our supply chain has delivered innovative solutions that have not only produced cost savings but challenged design engineers to meet embodied carbon goals, which results in even greater cost reductions.* ”

David Riley
Carbon Manager

Sourcing efficiency

We have built on our procurement planning process with the introduction of a highly efficient online e-sourcing platform. Our sourcing activity is extensive, and delivers over 250 separate packages of procurement work in compliance with European procurement regulations. At a time of significant cost pressure, these new procurement processes and initiatives have allowed us to outperform against our business plan – not only by mitigating inflationary increases, but in some cases achieving cost reductions.

MEETING THE CHALLENGE OF CLIMATE CHANGE

Leading on adaptation

With a year of such contrasting extremes of weather, never have the potential impacts of a changing climate been so obvious

Whether it is planning for droughts or floods, managing weather extremes over the last 12 months has brought into focus the realities of continuing to provide customer satisfaction against the backdrop of a changing climate

Facing these challenges highlights the importance of reducing carbon emissions to ensure that climate change is limited to a manageable level. This year we have worked with the Corporate Leaders Group on Climate Change to consider the role that embodied carbon has to play in this debate

Throughout 2012, climate change adaptation work within our company has focused on four priorities

- Working with policy makers
- Integrating adaptation into the periodic review of the water industry (PR14)
- Considering adaptation in our day-to-day decision making
- Continuing to improve our understanding of the climate risks to our assets and processes

KNOWLEDGE IS KEY

Although we continually improve our adaptation understanding, one barrier is still the difficulty of quantifying asset responses to weather events/climate averages. Ongoing research is crucial, and projects undertaken over the last year include:

- **UK Water Industry Research projects looking at the impacts of climate change on assets, asset planning and asset monitoring.**
- **Our innovation team has worked with the Engineering and Physical Sciences Research Council or the Industrial Doctoral Centre for the Water Sector to doctorate processes, including:**
 - **How septicity in our network and across our wastewater treatment works varies in response to weather patterns.**
 - **Designing an Anglian Water climate change monitoring strategy and programme.**
 - **Issues relating to raw water quality and availability in the environment and reservoirs.**

We have supported Defra in the development of the first five-year climate change National Adaptation Programme (NAP), designed to provide a framework for adaptation delivery in future investment periods

We hosted the Defra team on two occasions and provided input on behavioural change, climate resilience, power security and Sustainable Drainage Systems (SuDS)

We have also taken part in the National Infrastructure Operators Adaptation Forum, highlighting and discussing the importance of the relationships and interdependencies between sectors (such as water and power)

As we prepare for PR14 we have assessed the climate risks highlighted in the first national climate change risk assessment against our investment priorities, including topics such as

- Fluvial, pluvial and coastal flooding resilience and coastal erosion
- Supply demand (including water resources, metering and water efficiency)
- Integrated catchment management
- Wastewater monitoring and water monitoring

“ We want to help our customers engage with the potential implications that climate change has on their service, and then to help us agree the levels of resilience that they wish us to plan for ”

Steve Langlois
Growth Planning and
Equivalence Manager

Embedding adaptation into our business decisions is a key focus. To this end, we are specifically targeting our asset management processes so that adaptation considerations can be made in the whole asset planning, creation and maintenance cycle. This is assessing the adaptation readiness of each component of the process and, where appropriate, making recommendations for changes to current practices. In addition, our PR14 Resilience Working Group is inputting into two projects assessing the resilience of our power supplies and our supply chain.

Using growth to reduce flood risk and adapt to climate change

We take an active role in planning for growth to enable sustainable development while protecting our existing customers from any increase in the risk of sewer flooding. We work in partnership with local authorities on their growth plans, using tools such as Water Cycle Studies (WCS) and Drainage Plans to integrate water and spatial planning. 92% of local authorities within our area have carried out a WCS, each one with support from Anglian Water. We provide asset data and modelling support for technical assessments, with engineering and planning expertise to shape planning policy recommendations. A good example of this is the extensive and detailed sewer modelling we carried out to inform the development of policy on sustainable flood risk reduction for the redevelopment of the central area of Northampton. This partnership work was cited as ‘best practice’ by the Planning Inspector.

Energy strategy

Our energy strategy continues to ensure that energy supplies remain reliable and that we measure, manage and reduce our energy costs and the associated carbon emissions. This is vital in light of the uncertain global economic and political conditions.

We are particularly vulnerable to climate change, and we are also one of the largest users of electricity in the east of England. We have an ambitious goal to reduce our operational carbon emissions by 10% in real terms by 2015 from a 2010 baseline. To achieve this, we are generating our own renewable energy, investing to improve our energy efficiency and designing new assets that use considerably less energy.

Our leading approach to reducing embodied carbon in the infrastructure we build is not only mitigating the causes of a changing climate but also reducing the use of irreplaceable raw materials and saving cost.

Energy efficiency

In 2006, we launched an Energy Initiative designed to make significant reductions in our energy costs and our carbon footprint. This year has been one of our most successful in terms of savings made and the new efficiency initiatives developed.

The installation of smart meters on our smaller sites and sub-metering of our larger sites has allowed us to identify and respond to wastage much more rapidly. One example is the main pumping station for our Cambridge wastewater treatment works where we fitted meters to measure the energy efficiency of individual pumps. This gave us the opportunity to save £53,000 per annum by ensuring the pumping station always operates in the most efficient way.

The most important part of the Energy Initiative is our people. Their commitment is critical to our success. We have appointed a dedicated energy team and a number of specialist energy

PRIORITIES FOR THE COMING YEAR

This year we invested in improved energy metering, pump scheduling and pressure management. In conjunction with this investment we are making changes to our business processes to embed them and ensure they deliver sustainable savings.



HIGHLIGHT OF THE YEAR

The achievements of Tony Barker from our Water Services team were recognised in our annual employee recognition awards - We Love What You Do. Tony has worked for many years identifying and delivering hundreds of energy-saving projects - as well as encouraging others to do the same. Tony also contributed to the re-design of Raithby water treatment works, facilitating even more energy and carbon savings.

roles, such as energy engineers and Love Every Drop Champions. And it makes such a difference to the outcome of our efforts that everyone else in the organisation is playing their part too.

We recognise we cannot achieve our ambition alone, so we join forces with a number of specialist partners. For example, since the start of the Energy Initiative we have had a very successful relationship with ABB, a leader in power and automation technologies. They have enabled us to improve our performance and lower our environmental impact.



HIGHLIGHT OF THE YEAR

2012 has been one of the best ever years for our Energy Initiative, having beaten this year's kWh and cost savings targets.

THIS YEAR WE
REDUCED OUR
ENERGY BILL BY
AN ADDITIONAL

£1.6m

AND ALSO
SAVED ENOUGH
ENERGY TO
POWER

2,500

MANAGING THE PEAKS AND TROUGHS OF SUPPLY AND DEMAND

We actively manage our electricity consumption to minimise costs, wherever operationally possible. This is achieved by scheduling our electricity usage to optimise benefits from our electricity tariffs. As well as reducing our consumption, we also generate our own energy in response to peak tariffs and high demand on the National Grid. This year we have again participated in the National Grid's Short Term Operating Reserve service. This has generated an income for Anglian Water and has enabled the National Grid to call us to run our generators at times of peak demand.

Energy supplies

As well as generating our own renewable energy, the electricity we import also comes from a renewable source. At the end of 2012/13, almost all of the electricity supplied to us was from a renewable source.

This year, we are continuing to invest in back-up power and have worked closely with our distribution network operators to ensure our supplies are stable and reliable in the long term.

Our energy contract team works closely with suppliers and consultants to ensure agreements are effective and bills are accurate. Over the last year, our smart metering programme has given us remote access to accurate and timely data relating to over 90% of our electricity consumption. In particular, this improved data has helped us to more effectively manage our energy costs.

Renewable energy

This year, we continued to increase the amount of renewable energy generated across our sites. The majority of this renewable energy was created by our combined heat and power engines, which are powered by biogas from our wastewater treatment process. Our vision for increasing power generation from renewable resources is closely linked with our policy on the recycling and re-use of biosolids. The biosolids - treated to the highest standards and branded as Nutri-bio - are in great demand by the region's farmers as a valuable nutrient-rich soil conditioner.

THIS YEAR
WE GENERATED

52 GWh

OF RENEWABLE
ELECTRICITY,
WHICH IS
EQUIVALENT TO
POWERING

12,500

HOMES; 1,000
MORE THAN
IN 2011

IT'S WIN-WIN FOR WIND TURBINES

In September 2012 we commissioned our first large wind turbine. Located on our March wastewater treatment works, this 2.3 MW turbine will be used to power the on-site treatment processes, with any excess power being sent to the grid. We have two further turbines of the same size under construction. These will be commissioned this summer, giving a total installed capacity of 6.9 MW, and generating a further 14.5 GWh of renewable energy per year.

We worked with ASC Renewables - an established ethical developer of renewable energy projects - to construct a single wind turbine on land within the wastewater treatment works under a planning consent granted by Fenland District Council in 2009. Work commenced on site in February 2012 and the turbine started generating power in September, following final testing and commissioning.

Located about 53km outside Cambridge in a market town called March, the wind turbine supplies the treatment works with electricity, directly reducing our carbon emissions by 1,900 tonnes per year. Any surplus power is supplied to the local grid.

The annual electricity generated by the wind turbine will be approximately 4.45 GWh of renewable electricity per year, which is enough to power 12% of all local households, or approximately 1,000 homes.

The wind turbine at March wastewater treatment works will power the on-site treatment processes. Any excess power will go back to the grid.

Carbon

The challenge of reducing carbon emissions is not only the responsibility of national governments, but also leadership from individual organisations. We continue to focus on measuring, managing and reducing emissions in operating our business, and engaging with external stakeholders in setting frameworks to reduce both operational and embodied carbon.

This leadership approach is in recognition that reducing carbon helps us make our business more sustainable and delivers considerable savings across our operational and capital costs.

Our simple strategy on carbon is successful and continues to be 'measure, manage and reduce'. Over the five-year period from 2010 our goals are:

- Reduce our operational carbon emissions by 10% in real terms by 2015 from a 2010 baseline (493,702 tonnes)
- Halve our embodied carbon in new assets we build in 2015 from a 2010 baseline

A highlight for the year has been the contribution to hitting our targets from the Grafham resilience design team from Special Projects. This scheme is part of our resilience programme - in this case, to provide alternative supplies to large numbers of customers should water from Grafham water treatment works not be available for a period of time. The design team has successfully saved 77% (30,000 tonnes) of embodied carbon against the proposed solution and has reduced the forecast cost of the scheme as well. The savings have been achieved within the design phase through re-use of existing assets and working with the supply chain to reduce carbon.

While recorded emissions from transport have increased compared to our baseline year of 2009/10, part of this increase is due to more accurate data collection. Our emissions in 2012/13 have actually decreased slightly in comparison to the previous 12 months, highlighting that our reduction initiatives are starting to have an impact.

REDUCE CARBON REDUCE COST

Our strategy to reduce carbon emissions from business travel continues. Half of these emissions are from our sludge haulage activities so this business unit has carried on its Safe and Fuel Efficient driver programme. We have also replaced some older vehicles with more fuel efficient models.

“ This scheme highlights the success of our combined operational and project teams focusing on reducing carbon, which will also deliver cost savings and reduce the volume of construction materials used ”

Ian Turner
Special Projects Delivery
Manager

We continue our tyre safety campaign with Michelin and ATS carrying out spot checks on company and employee vehicles to raise awareness of why correct tyre pressure is important for safety, better fuel usage, lower CO₂ emissions and cost. And we're trialling new technology such as electric vehicles and rev limiters to reduce transport emissions.

As signatories to the Down To Zero collaboration between The Prince of Wales' Corporate Leaders Group and the Department for Business, Innovation and Skills we are committed to decarbonising our fleet operations.

The carbon reduction targets we have set are extremely challenging, and our priority for the coming year will be to make sure the tools, skills and knowledge within the business and through our supply chain continue to be supported to ensure delivery of operational and embodied savings.

HOW WE HAVE PERFORMED

	2012/13	2011/12
Net greenhouse gas emissions (ktCO₂e)	483	481

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

Measure

Annual gross operational carbon emissions have decreased by 12% in 2012/13 in comparison to the 2009/10 baseline decreasing from 493,702 t/CO₂e to 487,659 t/CO₂e. Overall gross emissions have remained relatively unchanged over the last two years despite continued installation of new assets across our network.

Annual net operational carbon emissions have reduced by 21% in 2012/13 in comparison to the 2009/10 baseline decreasing from 493,015 t/CO₂e to 482,740 t/CO₂e. The increase in renewable energy generation and the volumes exported have contributed to the lower net operational carbon emissions in comparison to the baseline year.

Our design engineers and capital delivery teams have delivered a 39% reduction in embodied (capital) carbon against our 2010 baseline, through focus on design, materials used in construction and commissioning techniques.

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 2010, the UK Government launched the Carbon Reduction Commitment (CRC) - a new carbon-related tax.

During 2013/14 we will purchase allowances to cover our emissions at a cost of around £4.9 million. Although the scheme is being simplified by the Government, the overall impact in terms of administration and governance remains unchanged, however, cash flow impact will increase by around £0.4 million.

Further information is available in our annual Greenhouse Gas Report, produced in line with Defra guidance on measuring and reporting greenhouse gas emissions.

INNOVATING WITH NEW MATERIALS

We developed an innovative recycled plastic manhole cover and frame, following a challenge to utilise lower-carbon materials in the manufacture of the products we install. We worked in close collaboration with one of our framework suppliers to develop the product to meet this challenge, replacing ductile iron with recycled plastic.

The cover and frame have a 75% reduction in embodied carbon and weigh less than the ductile iron variant. An additional benefit is that the cover has no scrap value, reducing the risk of theft.



HIGHLIGHT OF THE YEAR

In 2012, 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 2011/12.

Managing carbon reductions

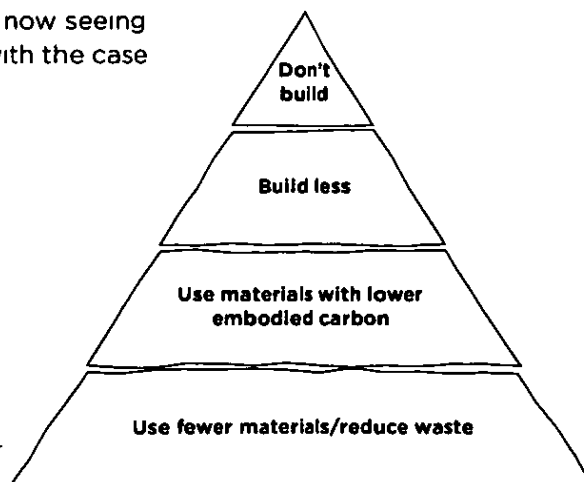
We are aiming to halve the embodied carbon in every new asset we create, which is why through this five-year investment period, designing out carbon at the planning stage is a key element of our management of capital projects. Using specially developed in-house software, we measure both embodied and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

Since we started engagement with our supply chain on measuring and reducing carbon emissions in 2008, we are now seeing positive outcomes as illustrated with the case study above.

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

PRIORITIES FOR THE COMING YEAR

Throughout 2012 we have been working to improve the measurement of our supply chain (scope 3) emissions. Through 2013, we will be working even closer with our supply chain to understand how further carbon reductions can be achieved.



Drop CO₂

Under Love Every Drop, we are engaging our employees in the importance of reducing carbon emissions and influencing wider government and other leading organisations in formulating a clear response to the carbon challenge

Our Drop CO₂ campaign successfully maintains the visibility and positive actions from employees across the business in reducing both energy and carbon

We also recognise the importance of engaging with a range of wider groups in ensuring managing carbon is central to policy and investment decision making. Our active involvement during the year is as follows

- Board membership of The Green Construction Board
- Encouraged action on embodied carbon at The Prince of Wales's Corporate Leaders Group
- Active Water Industry Research UK steering group members for guidance on 'A framework for accounting for embodied carbon in water industry assets'
- Chaired the Water UK Carbon Working Group
- Members of the Institution of Civil Engineers Low Carbon Life Panel
- Leadership in the Green Economy Pathfinder Board of New Anglia Local Enterprise Partnership
- Board Membership of the University of East Anglia Low Carbon Innovation Fund

One of the highlights of the year has been the positive collaboration with leading UK companies and the Government through The Green Construction Board. Chris Newsome, Director of Asset Management, sits on the main board and chairs the infrastructure working group

The Green Construction Board provides strategic leadership to ensure that UK construction is working towards a low carbon economy. The infrastructure working group has taken many of the lessons experienced by Anglian Water and other leading UK companies and produced the fundamental truths required to deliver reduced carbon and reduced cost



Building on the contribution we are making to sustainability at an industry level, our @oneAlliance won the Sustainability and the Environment category at the 2012 Peer Awards for Excellence, sponsored by *The Independent*. Our companions on the shortlist were sustainability leaders such as McDonald's and Coca-Cola Enterprises.

PLANNING AND INVESTING FOR GROWTH

Planning and investing

We are involved in many of the debates and initiatives creating a stronger, more resilient future for the east of England. We are determined to play an even bigger part in ensuring this region is a great place in which to live and work.

To do our bit to drive economic recovery and to champion the transition to a green economy, we are helping to lead the Green Economy Pathfinder (GEP) board of the New Anglia Local Enterprise Partnership. Other partners include the Environment Agency, local authorities, the Chambers of Commerce network and a number of government departments.

Our commitment to support delivery of the GEP's goals will help advance the debate on the value of natural capital, explore ways to increase water storage capacity and develop innovative responses to tackling climate change.

TAVERHAM SUDS RETROFIT PILOT PROJECT

Anglian Water has struck up a partnership with Norfolk County Council – the lead local flood authority for the area – alongside Norfolk Highways, Broadland District Council and local residents.

Working in partnership, a scheme has been designed that makes use of ponds and rain gardens to help reduce the risk of flooding.

A nearby roundabout will be converted to contain a 'basin' that will drain surface water away from the road, and back into the ground. Three further basins and a local 'rain garden' will help catch rainwater before it can enter our sewers, minimising the risk of the pipes becoming overloaded and flooding.

Creating these ponds and rain gardens will also be great for wildlife, providing more space for nature, at the same time as protecting local water quality.

Local people came to a public exhibition to see the plans for the scheme. Those involved are committed to ensuring the project is as good as it can be, meets all the appropriate standards, and can be maintained in the long run.

Sharing expertise to help understand flood risk

We currently support 21 Lead Local Flood Authorities (LLFA) across the region, as well as working closely with the Environment Agency, local planning authorities, Internal Drainage Boards and Local Resilience Forums. We have helped to develop and provided input into local flood risk management strategies.

Since 2010 we have worked in partnership with LLFAs, district councils and consultants to contribute to the delivery of Surface Water Management Plans (SWMPs). With our support 14 SWMPs have been completed to date, and another 19 are ongoing. Anglian Water provides support for SWMPs through the provision of asset data, detailed sewer modelling and professional input from drainage experts. The outputs from SWMPs are already informing our business planning at Lovetofts Drive in Ipswich for example, so undertaking this coordinated and collaborative approach is very important to us.

Lifting our sights in wastewater planning

We are carrying out a long-term sewerage management trial in Norwich to inform the Environment Agency and Ofwat's development of a Drainage Strategy Framework. This will help us to refine our long-term sewerage management process, and seek funding for any subsequent tools and models required. The principle builds on Sewerage Risk Management (SRM) but has a greater focus on partnership working and dealing with uncertainty over the long term, such as climate change, growth and urban creep.

In developing our regional wastewater catchment strategy for the next five-year investment period from 2015 to 2020, we have worked with Royal Haskoning to assess the implications of coastal erosion strategies within Shoreline Management Plans for our assets, and will continue to support the development of these plans as they are reviewed.

THE NORTHAMPTON DRAINAGE PLAN

We've been engaged in a project with Northampton Borough Council, the Environment Agency and Northamptonshire County Council, to improve drainage in Northampton.

The Northampton Drainage Plan will help to ensure local planning policy encourages the separation of surface water flows from the combined system – basically, keeping rainwater out of the sewers.

This will help reduce the volume of water pumped around the sewerage network before it is treated. Less water in the network means reductions in the energy we use, saving carbon at the same time as reducing the risk of sewer flooding, and the associated pollution risks. It's helping the town adapt to the risks of a changing climate.

The Planning Inspector recently recognised the work as best practice. Developers are also supportive of the principle, which is reflected in recent drainage proposals submitted to the Council.

Delivering sustainable flood risk reduction

Working together with Ipswich Borough Council, Suffolk County Council, Suffolk Highways and local residents, we are developing a scheme to reduce the risk of flooding for Lovetofts Drive in Ipswich. This was identified as a high-risk area in the Ipswich SWMP, and is one of eight retrofit sustainable drainage pilots that we are working on to inform Ofwat's ongoing work. Through a combination of gully disconnections, upgrades to the traditional drainage system and the provision of retrofit SuDS, we will be reducing the risk of flooding for many properties in the area. Working in partnership has been crucial to the design of a scheme that is fully supported by all the partners involved, in particular local residents.

UNLOCKING INNOVATION

New ways of working can transform what we do, so we're encouraging innovation throughout our business and supply chain - and making it easier for others to tell us about new products and services. In 2011, we launched the Water Innovation Network (WIN) with the UK Centre for Economic & Environmental Development. This enables small and specialist companies to share their ideas with us, discuss common challenges and encourage fresh thinking. Regular events are also held to encourage the establishment of supplier relationships. The 350 companies involved have suggested 120 new ideas, of which so far 10 have been trialled and implemented in our business.

Investing in our future

Investing in education and engaging with the communities we serve is vital to achieving our vision. So we visit schools, community groups and local authorities to help today's water customers - and tomorrow's - understand the reasons why we all need to think differently about water. We welcome people into our educational centres too. More than 33,000 children and adults took part in our community education programme last year, beating our target by 10%. We have also built tailored training packages for Environmental Health Officers and the Health and Safety Association, and met with groups of apprentice plumbers.

We are piloting a project with Norfolk County Council to train 36 youth ambassadors from secondary schools around the county. Each will undertake peer-to-peer learning with three primary schools in the county, promoting positive action on water efficiency, including a water efficiency audit.

PIONEERING COLLABORATION

We're taking the next big step forward in how we manage water by working with the University of Cambridge Programme for Sustainability Leadership (CPSL). Together, we're seeking to use collective action and innovation to bring people closer to water and to widen understanding of the many benefits it brings. To encourage this approach, we became a founding sponsor of the CPSL's Collaboratory on Sustainable Water Stewardship, working alongside government departments, non-governmental organisations, regulatory bodies, trade unions, private companies and academia in three closely connected working groups:

Finance, regulation and planning
This group is developing a toolkit to make the local planning of water and wastewater infrastructure more strategic for any catchment (the area that supplies a river or water source with surface and underground water).

Water allocation
This group will examine the potential for trading 'water rights', consider the market and regulatory arrangements needed for trading licences in England and Wales and use the evidence gathered to inform policy development.

Behaviour change
This group is encouraging communities to appreciate the varied benefits of water and to share the responsibility for water stewardship.

IMPROVING THE ENVIRONMENT AND ENHANCING BIODIVERSITY

Biodiversity and the drought

As well as the impact on water resources and agriculture, the drought put great pressure on biodiversity in our region. We worked with the Wildlife Trust to agree joint messages about helping wildlife through the drought. We were also featured on the BBC's *Countryfile* television programme, explaining how drought has affected Rutland Water and the positive impacts that our investment in 86 hectares of wetlands has created, including maintaining water for the internationally important wildlife while enabling the drawdown of the reservoir to meet demand.

We installed 60 new floating islands at Pitsford Reservoir. This provided ample nesting habitat for water birds that were finding it hard to survive in the challenging conditions, as the water level continued to fall.



HIGHLIGHT OF THE YEAR

A study undertaken by Keep Britain Tidy has evaluated the success of the RiverCare programme, and reported that it is delivering £4.8 million of economic, social and environmental benefit to our region.

Keep Britain Tidy study by Baker Tilly Corporate Finance

RIVERCARE CONNECTIONS IN PETERBOROUGH

Building on the success of our existing RiverCare network across the region, a new pathfinder project has been developed in Peterborough.

The aim was to link the local community with the river Nene that runs through the city and to show how people's actions can have a positive impact on the environment around them.

Working with Keep Britain Tidy and the Peterborough Environment City Trust, five new RiverCare groups have been established along the length of the river. The groups work together to improve the riverbanks and support local wildlife.

By talking to the groups and showing them where their drinking water comes from and is returned to once it has been treated, we've helped communities understand the very direct action they can take to protect their local environment.

The groups are now acutely aware of the importance of conserving water, as well as the need to avoid flushing things into the sewers that should more appropriately be disposed of in the bin.

Biodiversity Action Plan

Across our other Sites of Special Scientific Interest (SSSI), 99.9% are in a favourable or recovering condition

During operational site surveys, dormice were discovered at Alton Water – a first for any Anglian Water site. We covered a total of 50 locations in 2012, and are over halfway through assessment of our priority sites

We helped to restore wildflower grassland at Gayton in Northamptonshire

Many of our operational employees are now nominating sites where they would like to volunteer to undertake biodiversity work

We are carrying out partnership working, such as the project with Lowestoft Community Wildlife Group at Corton wastewater treatment works in Suffolk

A book was published in March 2013 to commemorate the osprey translocation programme we have been working on with Rutland and Leicestershire Wildlife Trust at Rutland Water – now home to the first ospreys to breed in England for 150 years

Our Love Every Drop Champions continue to deliver biodiversity in the workplace – for example, meadows are being developed at

our Anglian House site in Huntingdon and our central laboratories site, also in Huntingdon, has created a wildlife garden

Our Rutland lagoons proved their worth during the drought. The water vole reintroduction initiative is now complete and continues to do well

Tetney Blow Wells – underground springs that bubble to the surface and home to hundreds of rare and protected animals, insects and plants – continues to do well

The Lincolnshire Chalk Streams project was established in early 2004. It brings together a series of like-minded organisations who want to actively collaborate to conserve and enhance the nationally important chalk stream resource in Lincolnshire. Companies we are working with on this project include the Environment Agency, Natural England, the Wild Trout Trust and Lincolnshire Wildlife Trust

This project won The Bowland Award this year, given annually to the 'best project, best practice or outstanding contribution to the wellbeing of Areas of Outstanding Natural Beauty'. This year nominations were for projects demonstrating landscape scale conservation through partnership working

We look after 47 SSSI

99.9% are in 'favourable' or 'recovering' condition

28% more are moving from 'recovering' into 'favourable'

The Rutland Water Ospreys book was published this year - telling the story of the osprey translocation project at Rutland Water

“ In partnership with other bodies the project has restored 10 kilometres of chalk streams, meaning that around 40 kilometres of the Lincolnshire Chalk Streams are now in High Level Stewardship. This is helping to secure water quality, quantity and important habitats for trout and plants like water crowfoot ”

Mike Drew
Biodiversity Action Plan Scientist

Funding vital research for local birds under threat

The nightingale is one of the UK's fastest disappearing birds, but the reasons for this are currently unknown. Conservationists suspect that changes to the birds' favoured habitats - either in or along the route to their African wintering grounds - could be the cause. Many of our sites are home to the species, and we have a long history of supporting nightingale conservation work.

To help find answers, we have been working with the British Trust for Ornithology (BTO) as part of a three-year tracking project to establish if the birds are experiencing any problems during the course of their annual migration. In 2012/13, we funded the fitting of geolocators - positioning identification tags - as part of a programme designed to provide scientists with valuable information about annual migration patterns.

The size of a shirt button and weighing just half a gram, the geolocators consist of an electronic clock, a calendar and a light meter, powered by a small solar battery. They record valuable positioning and flight tracking data, which is collected when the birds return to the UK.

In 2012/13, in addition to paying for the geolocators, we funded a repeat of the 2000 hotspot survey in the Fens, and many of our employees got out of bed early to listen for the birds on our sites as part of a larger, national BTO nightingale survey. With the Anglian region so important to nightingales, we feel it is only right we do what we can to help their conservation.

We want to do more to help our Love Every Drop Champions, employees and customers to connect with their environment and understand the positive impacts they can have.

“The nightingale is clearly in a lot of trouble. We are very proud that the survey work we support has provided so much useful information about how to help them here in England. By funding the geolocators we hope the BTO will be able to glean vital information about what can be done to help them when they are away from our shores.”

Mike Drew

Biodiversity Action Plan Scientist

PROTECTING THE FENLAND NIGHTINGALES - HOW OUR EFFORTS BEGAN

We have known for some time that nightingales were in trouble. Numbers have dropped by almost two thirds since 1995, and continue to fall. Their range is also shrinking, with most now found in the south and east of England.

The BTO first approached us in 1999, after their national survey of nightingales found parts of our region were strongholds for the birds, with large numbers based along the eastern edge of the Fens. This is why we funded a 'hotspot survey' in 2000 to try to find out why the area is so attractive to them.

The findings led to the production of a guide to managing land for nightingales, which we successfully applied to our water sites and elsewhere. In 2012/13, we funded a repeat of the original hotspot survey in the Fens so we can update our learning and take further action.

WORKING BETTER BY WORKING TOGETHER

One example where our collaborative approach is making a real environmental difference is the work we are undertaking on the waterfront at Clacton-on-Sea, the largest coastal town on the Tendring peninsula. A vibrant and popular holiday resort, the region attracts a large number of tourists and holidaymakers every year.

Together with the Environment Agency, the local authority and businesses based in the area, we have been able to trace the source of beach pollution to a population of pigeons roosting under the pier. This integrated catchment management approach (which brings together land and sea conservation issues) means that the local authority can now target their efforts and resources on successfully resolving the problem.

Water Minister Richard Benyon MP (pictured middle), flanked by representatives from Seafish, the trade body for the UK seafood industry and Anglian Water, visits Clacton-on-Sea to talk about the work we're doing to make improvements for the shellfish harvesting industry across our region

100%

BATHING
WATER
COMPLIANCE
FOR 11TH YEAR
RUNNING

Coastal water quality

The Anglian region is characterised by its extensive coastline, which attracts a lot of visitors

Despite 2012's significant rainfall, all 48 of our bathing waters achieved 100% compliance with the European Bathing Water Directive. For the last 11 years we have had clean bathing waters, the majority (35) meet the higher standards of 'guideline'. This status is one of the requirements for being accredited with the prestigious Blue Flag Award.

Our solid 2012 performance was down to knowing where best to invest for optimal environmental enhancement. This is because we use sophisticated modelling to assess the potential impacts of our activities – and we are one of the first water companies to do so. Our targeted investment approach also means we have none of our combined sewage overflows (CSOs) classified as unsatisfactory by the Environment Agency.

Another first is that we are the only UK water company to provide information to beach owners about CSO operation at all our designated bathing waters. Our BeachAware system provides an email update to beach owners when we believe that a discharge has had the potential to influence water quality. Beach users can then be advised. BeachAware's CSO performance data also helps our strategic forward investment planning.

We take a truly collaborative approach to improving coastal water quality. To this end, we have formed a number of strategic partnerships at regional and local level with the aim of sharing information and better understanding stakeholder concerns. One example is our partnership with Seafish – the organisation that represents the UK shellfish industry. Our work to provide information about our assets is being used to help shellfish farmers with decision making regarding their harvesting activities.

WORKING FOR ANGLIAN WATER

Keeping everyone healthy and safe

Whatever the job, however urgent the deadline, our employees and contractors must never compromise on health and safety

Our approach to health and safety is set out in 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 or unhealthy act or condition
- We are committed to the principle that all accidents and harm are preventable

We have maintained external BS OHSAS 18001 accreditation for our health and safety system since 2009, and this was renewed following a successful full recertification audit (23 days) in 2012

We continue to make good progress towards our ultimate goals of no accidents and no harm. This year, one of our main safety improvements has been to further reduce the dangers associated with working at height, by enhancing fall protection measures on sites and implementing revised working arrangements

Improved focus on health by our partner contractors and suppliers this year has helped significantly reduce their accident rate

Measuring our performance

For the ninth consecutive year, our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RoSPA). We are proud to have received another Gold Medal, which is presented to organisations that demonstrate consistently excellent and continuously improving performance

This year, we 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 on the next page

“Our improved performance and leadership position on health and safety has not gone unnoticed and we are proud to have been invited to support Health and Safety Executive initiatives to help others to improve their knowledge and legal compliance”

Lee Murray
Head of Occupational Health and Safety

Measure	2012/13	2011/12	2010/11
Category 1 incidents	8	9	32

The number of accidents and serious 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 saw a reduction in the number of serious near misses

Accident Frequency Rate (AFR)	0.16	0.28	0.31
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The number of reportable accidents in every 100,000 hours worked

Our AFR includes data from our own employees and our contractors

Our AFR of 0.16 was our best-ever performance and is among the best in any industry

Keeping everyone fit and well

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

We have always recognised that preventing work-related ill health is just as important as preventing accidents, and we provide comprehensive occupational health support for our people

As well as occupational health support, we operate a private healthcare scheme for all employees and provide access to free, fast-track physiotherapy 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 concerns to debt or legal issues. This service operates 24/7 and can also help people to find practical support in a crisis such as emergency childcare or an out-of-hours plumber

In 2012, our in-house Occupational Health team ran a successful Get Active campaign to encourage and help employees to improve their health and wellbeing

The programme included advice on exercise and nutrition and has been positively encouraging people to exercise and play sport outside work. Many hundreds of our employees have taken up the challenge, with activities such as sponsored walks and bike rides, pedometer challenges, football and netball games, and even a winter walking festival with guided walks around our water parks

Also as part of Get Active, almost 500 employees took up the offer of a mini 'health MOT' to check blood pressure and cholesterol. Some were found to have early warning signs of potentially serious health problems, and are now benefiting from treatment. We are continuing our Get Active programme in 2013

Keeping our contractors and suppliers safe

We include contractors' and suppliers' data in our safety performance figures, and we will only work with companies who share our uncompromising approach to health and safety. Some of our major partners are industry leaders in safety and we are happy to learn from them.

Safety Stand Down days were held by our major construction partners this year, giving people the chance to down tools for the day and focus wholly on health and safety learning.

This year, we also rolled out a common induction process for our contractors, and we continue to work with and support them in driving the highest possible health and safety standards through our supply chain.

During 2013 we will be rolling out a programme to reduce risks associated with driving - the most dangerous activity for many people at home or work. This will use the driver risk assessment tool and road safety seminars that we piloted successfully in 2012 for more than 100 drivers. Over the next two years we will be rolling this out across all our 2,000 drivers.

“*Anglian Water takes health and safety very seriously. A prime example of this are the regular briefings, updates and practical training provided to people at all levels of the business.*”

My role as a Safety Coach is very satisfying because I can see the right health and safety procedures being put in place and am able to encourage the appropriate safety behaviours to go with them, both in my immediate team, with other colleagues and in life outside work.”

Alan Durrant
Safety Coach

PRIORITIES FOR THE COMING YEAR

Preventing accidents and keeping people well does not happen by chance. We remain focused on maintaining recent improvements and are determined to make further strides towards our overall goal of no accidents and no harm.

Investing in skills

To provide a high-quality service to our customers, we continue to invest in developing the skills of our people and ensuring they are kept up to date. Many of our training programmes involve assessment and accreditation against external standards.

Our Licence to Operate (LTO) programme was launched in 2006 to train and assess our water and wastewater front-line teams and their managers, providing recognised qualifications awarded by City and Guilds and other respected external accreditation bodies. During the year LTO was re-accredited for another five years by EU Skills, the sector skills council for the energy and utility industries, and 359 of our employees achieved new qualifications.

As part of our commitment to continuing professional development, 18 experienced wastewater managers are working towards Chartership status with the Institute of Water, a Level 7 qualification, 45 of our samplers - who undertake regulatory sampling in customers' homes and at our operational sites - have achieved their Diploma in Monitoring the Water Environment, and 25 of our craft technicians have widened their existing professional skills by achieving a Level 2 qualification in Performing Engineering Operations.

Looking ahead, we're aware that over the next few years, a significant number of our experienced managers may be planning to retire. To manage this risk and ensure we have capable successors in place, we have once again doubled the number of people undertaking qualifications with the Institute of Leadership and Management, to help prepare candidates for their first management role. More than half of these are now at Level 5 Diploma stage.

We also continue to develop our more experienced managers. During the year we have launched a new development programme for 45 of our senior professionals in the Asset

Management team. This will provide them with both technical and leadership development over the next 18 months.

We are always looking for innovative ways to continue professional development for our people. In 2012 we became the first water company to be licensed by the Drinking Water Inspectorate (DWI) to use the EU Skills Water Hygiene online learning and assessment tool for all new starters. In another first we seconded two of our scientists to the DWI. This initiative brings us knowledge and alternative thinking, which will help us to maintain the highest standards in water quality.

... **The 2012 intake of network technician trainees visits King's Lynn wastewater treatment works.**

... **Induction week for the 2012 graduate intake**

Employees - putting our customers first

The Face of Anglian Water training programme, launched last year, is helping our employees give even better service. Customer feedback has improved so much that we are currently top of Ofwat's customer satisfaction survey league table for all water and sewerage companies in England and Wales.

Part of this success has come from sharing customer comments directly with front-line employees, so they can see which behaviours customers regard as great service.

We've also extended the training programme to more than 170 people in support roles so they understand how they can help front-line employees exceed customer expectations.

We've trained 75 of our managers and senior technicians in how to coach service skills in their teams, and we've redesigned our performance management arrangements so that excellent service behaviours are everyone's personal responsibility.

We've worked with our contract partners to help 270 of their front-line employees understand the service standards expected of them when they work as representatives of Anglian Water. We'll be continuing this effort next year.

“We represent Anglian Water so delivering the customer service message to our field operatives is just as important to us. We're seeing the benefit of the training already”

Ben Hugg
Customer Services
Manager,
May Gurney

PRIORITIES FOR THE COMING YEAR

Ensure all our contract partners consistently demonstrate the standards we expect when delivering service to customers on behalf of Anglian Water.

Strengthen our service culture by recognising and rewarding employees who have the highest customer satisfaction ratings.

Employees - creating job opportunities in our region

We continued to grow employee numbers, providing more job opportunities in our region. To attract these new recruits we've made greater use of social media and we've launched an 'onboarding' website so new joiners can get easy access to information about our culture, processes and ways of working. The aim is to help them feel part of our organisation right from day one.

We've created a wide variety of roles this year, from finding and fixing leaks to tanker driving and working in our customer contact centres - all vital activities that help us improve service to our customers.

Our apprenticeship and graduate schemes continue to attract many hundreds of high-calibre applicants, and an independent survey run by *The Guardian* newspaper reported excellent feedback from people taking part in our schemes.

This year, as well as employing 10 new graduates, we took on 24 new apprentices, bringing the total number of people involved in our various trainee schemes to 53. Our target is to significantly increase this number again next year, taking the total number of apprentices in training with us to 93.

Our 2012 craft trainees in their year at Grantham College

“The graduate programme allowed me to develop and build a wealth of experience and knowledge of different parts of the business. It was a great start to my working life.”

Christopher Hayton
PR14 Customer and Stakeholder Engagement Manager

PRIORITIES FOR THE COMING YEAR

Grow the talent in our workforce and offer high-quality graduate and apprentice schemes

Saving for retirement

We want to encourage all our employees to save enough for their retirement.

As part of preparing for the Government's new auto enrolment regulations, we've taken the decision to go well beyond our legal obligations. From April 2013, every employee who works for Anglian Water for at least three months will be able to start building up a pension with us.

We're also committed to making sure all our employees are pensions-savvy. We've worked with our Pension Scheme Trustees to produce new pension packs, and we published a special pensions supplement with our employee newspaper, full of useful information designed to educate people about pensions and get them thinking about whether they're really saving enough to live on when they come to retire.

“We're very proud that our defined contribution pension arrangement has been awarded the Pension Quality Mark by the National Association of Pension Funds. It's proof we have a great quality scheme.”

Kate Kelly
HR Director

Love Every Drop Champions

This year over 240 Love Every Drop Champions have been working with teams across the business to support our campaigns and inspire their colleagues. Our Champions, who are our sustainability ambassadors, are at the forefront of the drive to achieve our 10 Love Every Drop business goals.

We've seen some brilliant examples of what can be done with a little enthusiasm and we regularly share great ideas through a Champions' newsletter. This keeps the network up to date with the latest campaigns and gives ideas and suggestions to help them motivate their colleagues. In the last year we have also held two development days, bringing Champions from around the business together to learn and share best practice.

One example of a Champion whose enthusiasm really shows is Richard Goulding, a Works Technician in Milton Keynes who organised an Energy Saving competition in his team this year to help reduce operational carbon. He even arranged for water butts and energy monitors as prizes to encourage more saving.

Next year we'll be developing a programme to help the Champions embed our Love Every Drop campaigns and priorities even further into their teams.

With Love Every Drop all of us can now understand the important part we can play in transforming our business for the future

Richard Goulding
Works Technician
and Love Every
Drop Champion

We love to help

Love to Help, our employee volunteering programme, supports employees who want to make a positive difference to their communities and the causes that matter to them. 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.

We now have 317 registered employees and later in 2013 we'll be investigating how we can make it easier for more of our staff to get involved.

Trainee Management Accountant and Love to Help volunteer Robert Colgan spends a few hours every week in the oncology department at Addenbrooke's Hospital, meeting and greeting patients. Robert says: "It is great that Anglian Water recognises my efforts for a cause close to my heart and of real value to the community."

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 2013 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.

Financial results

The consolidated profit and loss account as presented on page 137 is summarised in the table¹ below

	2013 excluding transactions with AWS Holding companies £m	2013 transactions with AWS Holding companies £m	2013 Total £m	2012 Total £m
Turnover	1,163 0	-	1,163 0	1,138 0
Operating costs	(445 8)	-	(445 8)	(433 0)
Depreciation	(262 4)	-	(262 4)	(254 2)
Operating profit (before exceptional profit)	454 8	-	454 8	450 8
Exceptional operating profit	-	-	-	41 3
Operating profit	454 8	-	454 8	492 1
Net interest payable and other finance charges	(345 8)	192 7	(153 1)	(187 6)
Profit before tax	109 0	192 7	301 7	304 5
Current tax charge	(30 2)	-	(30 2)	(31 2)
Deferred tax credit/(charge)	24 3	-	24 3	(12 9)
Total tax charge	(5 9)	-	(5 9)	(44 1)
Profit after tax	103 1	192 7	295 8	260 4
Dividends ²	(164 5)	(192 7)	(357 2)	(483 6)
Transfer from reserves	(61 4)	-	(61 4)	(223 2)

¹ In order to show the position of the Anglian Water Services Financing (AWSF) group (as defined in the ownership structure on page 22) the table shows the profit and loss account excluding internal interest receivable by the group from Anglian Water Services Holdings Limited and the internal dividend paid by the group and retained within the AWSF group of £192.7 million (2012: £193.6 million)

² Dividends paid to shareholders for the year ended 31 March 2013 were £164.5 million (2012: £290.0 million). The remaining £192.7 million (2012: £193.6 million) is the internal dividend referred to in the footnote above.

Turnover for the year was £1,163.0 million, up 2.2% on last year. This reflects the regulatory price increase of 6.6% (K factor of 1.4% and RPI of 5.2%), partially offset by reductions in demand from commercial and household customers of approximately 4.4% on an aggregate basis. The

reduction in household demand is primarily a consequence of the exceptionally wet spring and summer in 2012, but also reflects the impact of the water restrictions imposed from April to mid-June 2012 and our associated customer campaigns to reduce water usage.

The challenging economic environment and the wet weather have also contributed to the reduced commercial demand

Operating costs for the year increased by £12.8 million (3.0%) to £445.8 million (2012 £433.0 million). The increase is explained in the table below

Increases/(decreases) in operating costs	£m
One-off restructuring costs in 2011/12 not repeating	(2.4)
General inflationary pressures across the business	10.7
Maintenance costs in relation to private sewers transferred in October 2011	3.0
Private sewer set up costs in 2011/12 not repeating	(1.5)
Rates increases	2.7
Drought response and water restriction related costs	6.6
Operating costs of newly commissioned assets	2.5
Net increase in power costs, including the increase in wastewater pumping in response to the exceptionally wet summer last year	3.0
Reduction in bad debt charge	(3.1)
Efficiency and cost savings	(8.7)
Net increase in operating costs	12.8

Overall the upward costs pressures caused by inflation, maintaining the private sewers transferred in October 2011 and responding to the extreme weather conditions have been partially mitigated by our targeted cost reduction initiatives. In addition, our focus on customer debt collection contributed to a reduced bad debt charge compared with the previous year.

Depreciation is up 3.2% compared with last year, consistent with a higher charge for infrastructure renewals as a result of additional proactive leakage detection and prevention expenditure.

Operating profit (before exceptional items) has increased by 0.9% to £454.8 million as a result of the small increase in turnover, largely offset by the increases in operating costs and depreciation noted above. The exceptional profit

of £41.3 million in the previous year relates to a one-off non-cash pension credit resulting from restructuring the pension scheme.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £192.7 million, 2012 £193.6 million) decreased by 9.3% from £381.2 million in 2012 to £345.8 million in 2013. This was primarily the result of the non-cash impact of lower inflation on index-linked debt.

Taxation

The current tax charge on the profit before tax of £109 million (excluding intra-group interest receivable) was £30.2 million (2012 £31.2 million). This reflected a reduction in the corporation tax rate from 26% to 24% for the year. The total tax charge of £5.9 million (2012 £44.1 million) consists of the current tax charge of £30.2 million less a deferred tax credit of £24.3 million (2012 charge of £12.9 million) on the substantial capital investment we make (including £2.3 billion over the current five-year regulatory period), as agreed with the regulator to improve the service to customers. The reduction in deferred tax mainly reflects variations in the level of discounting due to changes in long-term UK Gilt rates.

Successful third year of AMP5 investment programme

Gross capital expenditure in the appointed business for the year was £496.5 million (£291.0 million on capital maintenance, £205.5 million on capital enhancement). Cumulatively to the end of the third year of AMP5 we are in line with expected regulatory outputs. Projects progressed during this year include a £40 million scheme to connect Covenham reservoir with the town of Boston in Lincolnshire, and a £44 million project to construct a new water treatment works in Newton-on-Trent, to increase available supplies for the growing city of Lincoln.

We continue to perform strongly in both identifying and delivering efficiencies on the investment programme, outperforming our expectations in the first three years of AMP5. Delivering this efficiency is key to enabling

us to continue to finance additional schemes which allow us to maintain high-quality service and enhance our resilience

We have delivered a 39% reduction in embodied carbon in the schemes we are delivering this year compared to our AMP5 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 by providing lower whole-life cost solutions

Continuing our programme of work following on from the drought conditions last year, the delivery of £63 million of additional outputs is ongoing to increase our resilience and protect customers' supplies. The schemes Anglian Water is investing in include finding new sources of water, and improving the ability to move water around the region. We are also protecting existing supplies by increased investment in leakage detection and repair work

Financial needs and resources

In the year to 31 March 2013 Anglian Water raised £844.0 million of net new funds and made debt repayments of £253.3 million. Debt repayments comprised £3.5 million of finance leases, £210.7 million in respect of our £275 million Class B 2012/2037 bond, which was called in July 2012, and £391 million in respect of a tender offer made on our £100.0 million Class B 2014/2024 bond in March 2013. This is consistent with our strategy to pre-finance maturing debt 12 months in advance

At 31 March 2013 Anglian Water had net borrowings of £5,261.6 million, an increase of £319.1 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £6,339.6 million and cash and deposits of £1,078.0 million. The increased net borrowings reflect an increase of £380.2 million in cash and deposits (which causes net debt to decrease) and an increase of £699.3 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 £691.1 million in the year ended 31 March 2013 (2012: £661.5 million)

Distributions

Dividends paid outside the Anglian Water Services Financing (AWSF) group for the year ended 31 March 2013 were £164.5 million (2012: £290.0 million), which equates to £16.45 per share (2012: £29.00 per share). This included £6.5 million (2012: £nil) to settle an intra-group receivable due to the company and consequently this amount ultimately remained within Anglian Water Services Limited. In addition an intra-group dividend of £192.7 million (2012: £193.6 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 £1,602.6 million. This dividend is retained within the AWSF group. In total, dividends of £357.2 million (2012: £483.6 million) have been paid and committed at £35.72 per share (2012: £48.36 per share)

The Directors have proposed a final dividend for the year ended 31 March 2013 of £9.50 per share, which is a total of £95.0 million. This distribution has not been accounted for within the 2012/13 financial statements as it was approved after the year end

The company's dividend policy is to identify the cash available for distribution allowing for the business's liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment the Directors review the business performance forecasts (currently to the end of the current Asset Management Plan period (31 March 2015)) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company's forecast cash flows. The Directors consider this cash-based approach provides

an acceptable return to the equity investors while ensuring the liquidity requirements of the business are fully met. The overall amount of the company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by the company and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraints. This policy is consistent 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 2013 the company held cash, deposits and current asset investments of £1,078.0 million (2012: £697.8 million). The increase in cash held compared to the prior year reflected pre-funding in 2012/13 of debt repayments falling due in 2013/14. These resources are maintained to ensure appropriate liquidity and the continuation of the company's ongoing capital investment programme. The maturity profile of the company's borrowings is set out in note 17 on pages 155 to 161 of the accounts.

The new debt raised on a gross basis during the year comprised a £250 million 4.5% Class A 2027 fixed rate bond issue, two private placement index-linked issues of £50 million at 2.05% maturing in 2033 and £15 million at 1.37% maturing in 2022, £127.5 million of Class A US private placements and £55.5 million of Class B US private placements, a £200.0 million 4.5% Class B 2026 fixed rate bond issue, and £150.0 million of European Investment Bank index-linked funding.

The company has access to £420.0 million of undrawn facilities (2012: £420.0 million) to finance capital expenditure and working capital requirements. In addition, the company has access to a further £365.0 million of liquidity facilities (2012: £355.0 million), consisting of

£279.0 million to finance debt service costs and £86.0 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 2012/13 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 tender offer on the Class B debt callable in 2014 and open market purchases of the £275 million Class B bond that matured in July 2013.

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

Interest rates

The company's policy, as agreed by the board, is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 54.8% (2012: 55.8%) of the company's borrowings were at rates indexed to RPI, 34.6% (2012: 34.0%) were at fixed rates and 10.6% (2012: 10.2%) were at floating rates.

Pension funding

The FRS 17 pension deficit (before deferred tax) at 31 March 2013 stood at £86.1 million for all schemes, compared to a deficit of £62.0 million at 31 March 2012. This increase in deficit reflects the impact of the 0.5% lower corporate bond rates used to discount the pension scheme liabilities,

which more than offset the benefits arising from our deficit reduction payments in the year of £21.6 million and the increased asset values resulting from the stock market gains in the year

Regulatory accounts

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 172 to 204. These show the results of Anglian Water on a non-consolidated basis and provide an analysis of the appointed (regulated) and non-appointed businesses.

Regulatory key performance indicators

We report a range of financial and non-financial key performance indicators (KPIs) throughout this Annual Report, and these are summarised on pages 103 to 105. Comments on the four financial KPIs recommended by Ofwat are set out below.

Post tax-return on capital - This measures the current cost profit (after current tax) as a proportion of the regulatory capital value (RCV). The reduction in post tax return on

capital from 4.7% in 2011/12 to 4.2% in 2012/13 reflects a 6% rise in RCV, consistent with the high level of capital expenditure in the year, and a reduction in current operating profit resulting from higher costs and depreciation, only partially offset by increased turnover.

Credit rating - Credit ratings are set by independent agencies to indicate a company's ability to meet its financial commitments to investors. We have a range of ratings for different types of debt but this corporate family rating, provided by Moody's, summarises the overall security of our debt. The majority of our debt is A-rated. The credit rating is Baa1, unchanged from prior year and in line with expectations.

Gearing - Gearing is a measure of company debt as a percentage of the company's regulatory capital value. Our gearing level of 79.5% at 31 March 2013 is well within the limit we have agreed with our lenders.




Interest cover - This measure indicates how many times the interest we have to pay is covered by our cash flow. The interest cover ratio for the year was 1.47, which is in line with our lenders' expectations.













HOW WE HAVE PERFORMED

	2012/13	2011/12
Post-tax return on capital	4.2%	4.7%
Credit rating	Baa1	Baa1
Gearing	79.5%	79.2%
Interest cover	1.47	1.37

Ofwat asks us to publish our performance against a range of key performance indicators at least once a year. You can see a complete list of our regulatory and Love Every Drop key performance indicators on pages 103 to 105.

KEY Love Every Drop Commitments and Regulatory KPIS 2012/13 Summary Table

-  We've met our commitment, or we're on track to meet it
-  Progress has been made but there is still more work to do
-  New measure - too early to make an assessment


		Status	Pages to find further detail
Love Every Drop goal - 100% of our customers very satisfied with our service			
Love Every Drop commitment	We will increase customer satisfaction year on year		17, 19, 26, 64
Love Every Drop commitment	We will respond to the needs of our most vulnerable customers and act to improve our service to them		66
Love Every Drop commitment	Expand the WaterCare register to business as usual		66
Love Every Drop commitment	We will ensure our bill remains 'affordable'		30, 31, 66
Regulatory KPI	Service Incentive Mechanism [measures the level of customer concerns with our service and how well we deal with them]	 85 (score)	64
Love Every Drop goal - Frontier performer in our industry			
Love Every Drop commitment	We will continue to maintain world-class drinking water quality	 99.96%	26, 52
Love Every Drop commitment	We will work with and learn from businesses and our communities to champion and support innovation		18, 44, 45
Regulatory KPI	Leakage [measures distribution and supply pipes losses in megalitres per day (Ml/d). It includes uncontrolled losses between treatment works and the customer's stop tap. It does not include internal plumbing losses]	 189 Ml/d	49
Regulatory KPI	Post-tax return on capital	4.2%	102
Regulatory KPI	Credit rating	Baa1	102
Regulatory KPI	Gearing	79.5%	102
Regulatory KPI	Interest cover	1.47	102
Regulatory KPI	Serviceability water non-infrastructure [assesses the reliability of service and asset performance for our water non-infrastructure (treatment works etc)]	 Stable	51
Regulatory KPI	Serviceability water infrastructure [assesses the reliability of service and asset performance for our water infrastructure (pipes etc)]	 Stable	51
Regulatory KPI	Serviceability sewerage non-infrastructure [assesses the reliability of service and asset performance for our sewerage non-infrastructure (treatment works, pumping stations, etc)]	 Stable	51
Regulatory KPI	Serviceability sewerage infrastructure [assesses the reliability of service and asset performance for our sewerage infrastructure (sewers etc)]	 Marginal	51

		Status	Pages to find further detail
Love Every Drop goal – No pollution			
Love Every Drop commitment	We will campaign to change people's behaviour on disposal of fats oils and grease and unflushables	●	18, 56 58, 59
Regulatory KPI	Sewer flooding [measures the number of internal sewer floodings in the year of properties that have also flooded in the last 10 years]	○ 204 (incidents)	56
Regulatory KPI	Pollution incidents (sewerage) [measures the total number of incidents in a calendar year that have come from a discharge or escape of a contaminant from one of our assets]	● 99.7 (Cat 1-3 incidents/10,000 km of sewer)	56
Regulatory KPI	Serious pollution incidents (sewerage) [measures the number of instances of internal sewer flooding for properties that have flooded in the last 10 years]	● 0.7 (Cat 1-2 incidents/10,000 km of sewer)	56
Regulatory KPI	Discharge permit compliance [measures the performance of our assets to treat and dispose of sewage in line with the conditions imposed on the treatment works]	● 98.1%	56
Regulatory KPI	Satisfactory disposal of sludge [a measure of our compliance with stringent legal obligations]	● 100%	56
Love Every Drop goal – No incidents			
Love Every Drop commitment	We will improve our performance and behaviour so that we will operate without any serious water quality incidents	● 0 (category 4 or 5 incidents)	52, 53
Regulatory KPI	Water supply interruptions [measures time lost due to water supply interruptions for three hours or longer, per property served]	● 00.14 (HH MM/prop)	50
Love Every Drop goal – No accidents			
Love Every Drop commitment	We will work with our staff and contractors to reduce accidents to zero	● 0.16 (AFR)	27, 91-93
Love Every Drop goal – Leading employer in our region			
Love Every Drop commitment	We will help our employees stay fit and healthy	●	92
Love Every Drop commitment	We will appoint and train Love Every Drop Champions in all our teams	● 240	97
Love Every Drop commitment	We will include achievement of our Love Every Drop commitments in rewards and incentives	●	19, 77
Love Every Drop commitment	We will encourage our employees to contribute to the environment and communities we care for	●	97
Love Every Drop commitment	We will launch an initiative with relevant organisations to provide the professional and technical skills needed for the long-term success of the water industry by 2014	●	94-95
Love Every Drop commitment	We will work with our contractors to encourage health and wellbeing initiatives in our supply chain	●	93
Love Every Drop commitment	We will encourage our employees to understand how they can lead more sustainable lives	●	83, 89
Love Every Drop commitment	We will train all relevant employees in responsible buying by 2012	●	60 74

		Status	Pages to find further detail
Love Every Drop goal - We will halve the embodied carbon in the building of new assets by 2015 (from 2010 level)			
Love Every Drop commitment	We will halve the embodied carbon in the building of new assets by 2015 (from 2010 level)	● 39% reduction	47, 80, 82
Love Every Drop goal - Reduce our operational carbon emissions by 10% in real terms by 2015 from 2010 baseline			
Love Every Drop commitment	We will implement a 'drop carbon' initiative by 2011, to build on existing carbon savings company wide	●	26, 77, 78
Love Every Drop commitment	We will target business mileage and fuel efficiency of company vehicles to reduce carbon emissions	●	80
Love Every Drop commitment	We will invest in additional renewable energy CHP generation and optimise outputs from our existing CHP units	●	79, 80
Love Every Drop commitment	We will increase the flexibility of our office space use and working practices to benefit environmental impact	●	81
Love Every Drop goal - Get it right first time, no rework. Zero waste			
Love Every Drop commitment	We will improve the delivery of our capital programmes	●	27, 47, 72
Love Every Drop commitment	We will achieve and maintain relevant international and national certification standards for our operations	●	71, 82, 91, 96
Love Every Drop commitment	We will reduce waste across all our operations to become a zero waste company	●	51
Love Every Drop goal - Effective management of the impact of growth and climate change in our region			
Love Every Drop commitment	We will seek to understand the impact of climate change on our assets and increase their resilience where possible	●	60, 75, 76
Love Every Drop commitment	We will help people to understand the real benefits that water brings to their lives	●	48, 62
Love Every Drop commitment	We will work with our contractors and partners to create a sustainable region	●	51, 73, 74
Love Every Drop commitment	We will help business customers understand and reduce embedded water in their products and processes	●	67-70
Love Every Drop commitment	We will help local communities to understand and be prepared for the risk of flooding in our region	●	76, 84, 85
Love Every Drop commitment	We will work with local authorities, developers and strategic partners to prioritise water sustainability in the planning process	●	76, 84, 85
Love Every Drop commitment	We will protect and enhance biodiversity on our sites	●	87-89
Love Every Drop commitment	We will encourage and support employees and customers caring for our region's environment	●	87-90
Regulatory KPI	Net greenhouse gas (GHG) emissions [measures our annual operational GHG]	● 481 (ktCO ₂ e)	26, 81
Regulatory KPI	Security of Supply Index [indicates the extent to which we are able to guarantee unrestricted water supply - measured under dry year and peak demand conditions]	● 100 (index)	50

ANGLIAN WATER SERVICES BOARD OF DIRECTORS

The Directors' report
can be found on

 P132

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 and was appointed to the board of Aviva plc on 14 January 2013. He has been Chairman of Cellmark Investments AB since 2008 and is also a Non-Executive Director of Skanska AB

Sir Adrian was Chairman of Michael Page International from 2002 to 2011, Deputy Chairman of The Green Investment Bank from 2012 to 2013, Chairman of British Energy Group plc from 2002 to 2009, Chairman of Friends Provident Group from 2005 to 2009, and Chairman of Infrastructure Investors Ltd from 2002 to 2009

Executive Directors

Scott Longhurst, Managing Director, Finance & 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 Fellow of the Institution 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. Jean chairs the sector's Water Efficiency Evidence Base Steering Group, which aims to build the evidence to support large-scale water efficiency programmes with support from regulators and Government.

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. Jean is a qualified Chartered Accountant by training.

Independent Non-Executive Directors

Christopher Garnett, OBE

Christopher Garnett was appointed in December 2006. He is a Board Member of the Olympic Delivery Authority and was Chairman of the Olympic and Paralympic Transport Board. Christopher was a Board Member of Transport for London for five years, stepping down at the end of 2012. He also chaired the Rail Panel. He is a Non-Executive Director of Aggregate Industries Limited.

Christopher retired in 2006 after 10 years as Chairman and Chief Executive of GNER. Prior to that, Christopher had been Commercial Director of Eurotunnel at the time of the opening of the Channel Tunnel. Earlier he had worked for Sealink British Ferries operating Cross Channel ferries. Christopher 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, having retired as Chairman of the Met Office in September 2012. He is Chairman of the World Conservation Monitoring Centre, Trustee of the Baynards Zambia Trust and a Trustee of Watts Gallery. In 2011, Robert stepped down as Chairman of the Trustees of the Carbon Disclosure Project, having also retired after eight years as Chief Executive of WWF-UK.

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 advisory practice, and is currently working with a number of retailers and retail suppliers on business growth, operational improvement and leadership development. John is also an award-winning Group Chairman for Vistage International, working as a business coach with 16 CEOs from various industries, and is the Lead Non-Executive Director of the Government Procurement Service, the UK's largest public sector procurement organisation.

CORPORATE GOVERNANCE REPORT

Principles of corporate governance

The company and the group are committed to high standards of corporate governance. Under the terms of its Licence from Ofwat, the company is required to have regard to the UK Corporate Governance Code (the 'Code'). The Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. However, the Code generally applies only to companies whose shares are listed on the London Stock Exchange. An important principle of the Code is 'comply or explain', which recognises that companies may depart from its provisions in particular circumstances and requires that companies explain those departures. As the company is a wholly owned subsidiary in a privately owned group, the operations of which are governed by a shareholders' agreement, the board of the company (the 'board') considers that a number of the provisions of the Code are not directly applicable. The areas where the Code is not followed are explained in the body of the report below.

Corporate governance arrangements resulting from securitisation

In 2002, a securitised structure was put in place. As part of these arrangements, the company entered into 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

The corporate governance measures put in place 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 the majority of Executive Directors on the board cannot also be Directors of other Anglian Water Group companies. 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 accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the board.

The board

The board's aim is to ensure the effective delivery of the company's strategy. This involves shaping and monitoring the delivery of key outcomes that are essential to the company's stakeholders including:

- Supplying drinking water that is safe, clean and acceptable
- Providing excellent customer service
- Managing and meeting the growth in demand for sustainable and reliable water and wastewater services
- Investing to maintain services for future customers
- Minimising the impact of disruptive events, in particular increasingly severe weather events
- Ensuring that customer bills balance fairness, affordability and value for money
- Supporting a flourishing environment

- Leading by example on reducing emissions and conserving natural resources
- Working responsibly with and for the community in the region served by the company
- Ensuring that the business is financially responsible, efficient and earns appropriate returns

A clearly defined framework of roles, responsibilities and delegated authorities is in place which supports this aim. The board has a formal governance matrix which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues. These matters include

- Approval of the annual business plan and budget
- Following the recommendation of the AWS Audit Committee, approval of the interim and final financial statements
- Approval of any business plan to be submitted to Ofwat
- Approval of any proposed material changes to the Licence
- Approval of any listing particulars, circulars to holders of the Anglian Water Services Financing Group securities or prospectuses and recommendations in respect of any matters which may be submitted to holders of the Anglian Water Services Financing Group securities
- Approval of all material policies including the company's policies in relation to payment of dividends, health and safety, corporate social responsibility and environmental matters
- Approval of the terms of reference of the company's board committees
- Changes to the corporate and capital structures of the AWS Finance Group companies
- Approval to spend capital in respect of higher value capital schemes

Board membership

There are currently eight Directors on the board, all of whom served throughout the year. At 31 March 2013, in addition to the Chairman Sir Adrian Montague, there were four Executive Directors and three independent Non-Executive

Directors. The company is required under the terms of its Licence to ensure that the composition of the board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the company. Both the Licence and the CTA require that the board of the company must contain not less than three independent Non-Executive Directors. Although independent Non-Executive Directors are in the minority (in other words, they do not constitute at least half of the board), the board is satisfied that its composition is such that there is an appropriate balance of skills, experience, independence and knowledge of the company. The board also considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the board's decision taking. Details of the skills and experience of the Directors are contained in the Directors' biographies on page 106.

The Executive and Non-Executive Directors are equal members of the board and have collective responsibility for the company's strategy and performance. The Chairman was independent on appointment to the board. All the Non-Executive Directors are considered by the board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the Code. The board recognises that, having served for 11 years, Mr Napier is not considered to be independent for the purposes of the Code. However, the board has satisfied itself that he remains independent in judgement and character. The Non-Executive Directors provide constructive challenge and bring independence to the board and its decision-making process. In particular, the Non-Executive Directors are responsible for

- Bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management
- Scrutinising and challenging performance of the company's business
- Assessing risk and the integrity of the financial information and controls

The board does not believe that the appointment of a Senior Independent Non-Executive is warranted since all Directors have access-to-the-shareholders²-representatives via the AWG Strategy Committee (of which all Directors of the company are members) All Non-Executive Directors have letters of appointment rather than service contracts However, as the company is a wholly owned subsidiary in a privately owned group, the company does not consider that it is appropriate to make these letters of appointment publicly available

Roles and responsibilities

It is the company's policy that the roles of the Chairman and Managing Directors are separate, with their roles and responsibilities clearly divided and set out in writing The Chairman's main responsibility is the leadership and management of the board and its governance The Chairman's commitment to the company and to its ultimate parent company is usually six to eight days per month His other significant commitments are disclosed in his biography on page 106 The board considers that these commitments do not hinder his ability to discharge his responsibilities to the company effectively

The Managing Directors are responsible for the leadership and day-to-day functioning of the company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal

Recommendations for appointments to the board are made by the board Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender) Non-Executive appointees are also required to demonstrate that they have sufficient time to devote to the role

Board meetings

The board holds regular scheduled meetings throughout the year and during the year ended 31 March 2013 there were 12 scheduled meetings of the board In addition, the board held four scheduled meetings between 31 March 2013 and the date of publication of this annual report The board received regular reports on business and financial performance, regulatory

issues, health and safety, performance, employee issues and the management of key business risks The Chairman of the Audit Committee also provided reports on matters discussed by that committee since the previous board meeting

In addition to its routine business, matters considered by the board during the year ended 31 March 2013 included

- Drought planning
- Biosolids strategy and performance
- Leakage strategy and performance
- Licence modifications
- Planning for the next price review (including customer consultation)

Board committees

The board has established an Audit Committee Throughout the year, the Chairman of the Audit Committee has provided the board with a summary of key issues considered at Audit Committee meetings The board of Anglian Water Group Limited has established a Remuneration Committee to oversee and debate issues of remuneration policy outside main board meetings Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the company's expense

Audit Committee

Details of the terms of reference of the Audit Committee, its membership and activities during the year are contained in the Audit Committee report on pages 114 to 116

Nomination Committee

At present, the company does not have a Nomination Committee All matters relating to the appointment of additional Directors, the removal of Directors or the Company Secretary are considered by the full board of the company

It is proposed that the board should constitute a Nomination Committee in the forthcoming year The Nomination Committee will lead the process for appointments to the board and will make recommendations to the board for approval The composition of this committee

will be such that a majority of committee members will be independent Non-Executive Directors. The Chairman will chair the committee (save in circumstances where it is dealing with the appointment of his successor). The terms of reference of the Nomination Committee will be available from the Company Secretary on request.

Remuneration Committee

The company has not had a Remuneration Committee. Instead, all matters relating to the remuneration of the company's Directors and senior managers have been considered by the Remuneration Committee of Anglian Water Group Limited, which also deals with remuneration matters for the senior managers of other group companies. Membership of the Remuneration Committee comprises four members of the board of Anglian Water Group Limited and the Chairman (who is also chairman of the Remuneration Committee).

Details of the AWG Remuneration Committee's role, the company's remuneration policy and the remuneration paid to Directors during the year are contained in the Remuneration report on pages 117 to 131.

It is proposed that the board should constitute a Remuneration Committee of its own board in the forthcoming year. The committee will comprise the Chairman and two independent Non-Executive Directors of the company. The terms of reference of the Remuneration Committee will be available from the Company Secretary on request.

Strategy Committee

The board of Anglian Water Group Limited has established a Strategy Committee, which also assists the board of AWS in the furtherance of its duties. The function of this committee is to discuss strategic issues of common interest to the members of both boards. The Strategy Committee is not responsible for making decisions in relation to the strategy of the company. All decisions relating to the strategy of the company are taken by the board. Membership of this committee comprises all members of the board of Anglian Water Group and the members of the board of AWS.

Board and committee attendance

12 scheduled meetings of the board were held during the year. The attendance by individual Directors at scheduled meetings of the board and Audit Committee during the year ended 31 March 2013 is shown in the table below.

Director	Board	Audit
Sir Adrian Montague (Chairman)*	12/12	3/3
Christopher Garnett	10/12	3/3
Scott Longhurst*	12/12	3/3
Robert Napier	9/12	3/3
Chris Newsome	12/12	-
Peter Simpson*	12/12	3/3
Jean Spencer	12/12	-
John Watkinson	11/12	3/3

*Not a member of the Audit Committee, but attended by invitation.

One extraordinary board meeting was held during the year to deal with proposed modifications to the Ofwat Licence. 14 other board meetings were held, some at short notice. Of those meetings, eight dealt with borrowing and facilities, bond issues or buybacks and the prospectus, five dealt with interim dividends, four of which arose from routine quarterly interim dividends linked to the AWSF group's loan structure, and one dealt with an Ofcom Certificate. Since 31 March 2013, seven further board meetings have been held, four of which were scheduled on 4 April 2013, 26 April 2013, 22 and 23 May 2013, which all Directors attended (other than Christopher Garnett who was unable to attend the meeting on 26 April 2013 and Robert Napier who was unable to attend the meeting on 23 May 2013). Two meetings were held at short notice to deal with the issue of a new bond and an Ofcom Certificate. An additional meeting was held on 22 May 2013 to approve a dividend.

One extraordinary meeting of the Audit Committee was held on 8 February 2013 to consider the company's response to certain allegations made by a whistleblower. As this meeting was held at short notice, Mr Watkinson was unable to attend.

Information and professional development

Directors are continually updated on the company's business and changes to the competitive and regulatory environment through briefings to the board and meetings with senior Executives. Periodic board visits to different business locations enable the Directors to meet with local management and employees and to update and maintain their knowledge and familiarity with the company's operations.

The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. The provision of information to the board was reviewed during the year as part of the performance evaluation exercise referred to below. To ensure that adequate time is available for board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior Executives. In addition, board committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties.

The Company Secretary is available to all Directors and she is responsible for information flows to the board and advising the board on corporate governance matters. This ensures compliance with board procedures and applicable laws and regulations. The board has responsibility for the appointment and removal of the Company Secretary.

On appointment, individual Directors undergo an induction programme covering, among other matters

- The business of the group
- Their legal and regulatory responsibilities as directors of the company
- Briefings and presentations from Executive Directors and senior Executives
- Opportunities to visit operational sites

Further training is also provided to all Directors, including legal and regulatory updates. All board members are entitled to receive, at the company's expense, independent professional advice on any matters relating to their responsibilities as Directors.

Board evaluation

The board considers the annual review of the board, its Audit Committee and Directors to be an essential part of good corporate governance. In April 2013, the board conducted an evaluation of its own performance and that of its Audit Committee. The individual performance of the Directors was also evaluated through one-to-one interviews with the Chairman. Each Director was asked to consider a series of questions prepared by the Chairman and the Company Secretary before meeting with the Chairman to discuss the collective performance of the board and its Directors. The Chairman then produced a report of the findings (highlighting key outcomes and opportunities for improvement) which was presented to and discussed by the board. The evaluation concluded that the company's governance processes were working well and that the board was effective. The main recommendations that arose from this evaluation were that the company's Annual Report should be updated and enhanced with a view to aligning it more closely with the requirements of the Corporate Governance Code. As the company is a wholly owned subsidiary in a privately owned group, the company does not consider that it is necessary to involve external facilitators in the board evaluation process.

The Chairman confirms that each Director continues to make a valuable contribution to the board and, where relevant, the Audit Committee, and devotes sufficient time to the role.

The performance of the Chairman was evaluated in April 2013 by a committee of the board of AWG. In the circumstances, the board did not consider that it was necessary for the company's independent Non-Executive Directors to conduct a separate appraisal of the Chairman's performance.

Relations with shareholders

In fulfilling their responsibilities, the Directors believe that they govern the company in the best interests of shareholders, while having due regard to the interests of other stakeholders in the group including customers, employees and suppliers.

The company maintains a website at www.anglianwater.co.uk, which is regularly updated and contains information about the company's operations

Risk management and internal control

The board is responsible for the company's systems of internal control and risk management and considers this to be fundamental to the achievement of the company's strategic objectives. The board's policy is to have systems in place that optimise the company's ability to manage risk in an effective and appropriate manner. Any areas of concern are reported to the next board meeting and/or Audit Committee meeting as appropriate. The board formally reviews the operation and effectiveness of the group's system of internal controls on an annual basis.

The company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These include:

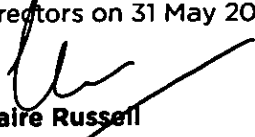
- The formulation and deployment of company accounting policies and procedures
- Policies governing the maintenance of accounting records, transaction reporting and key financial control procedures
- Monthly operational review meetings which include, as necessary, reviews of internal financial reporting issues and financial control monitoring
- Ongoing training and development of appropriately qualified and experienced financial reporting personnel

The company's systems and procedures are designed to identify, manage and, where practicable, reduce and mitigate the effects of the risk of failure to achieve business objectives. They are not designed to eliminate such risk, recognising that any system can only provide reasonable and not absolute assurance against material misstatement or loss. The board confirms that the systems and procedures providing an ongoing process for identifying and managing the principal risks and uncertainties faced by the group have been in place for the year ended 31 March 2013 and up to the date of the approval of the Annual Report, which is in accordance with

the guidance on internal control published in October 2005 (the Turnbull Guidance). The group's internal and financial controls include the following:

- An internal audit programme, outsourced to KPMG. The internal auditors carry out a comprehensive review of internal controls and formally report their findings and recommendations to the Audit Committee.
- An annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility. The responses are reviewed by the Audit Committee.
- A formal controls questionnaire completed by the business twice each year and reviewed by group internal audit, with the conclusions being highlighted to the Audit Committee.
- A Risk and Compliance Monitoring Committee that has oversight of the risk management activity that takes place throughout the business. The company maintains a risk register, managed by the Risk and Compliance Monitoring Committee, which is reviewed by the Audit Committee at each committee meeting. Risks are assessed by reference to impact and likelihood of crystallisation. This process is continuous and has been in place for the year under review. The process is regularly reviewed by the board in accordance with relevant guidance.
- A monthly financial controls questionnaire completed by the business and reviewed by the financial controller and internal audit.
- An annual review of the maturity of the financial controls, which was conducted by the company's external auditors. The findings of the most recent review were reported to the Audit Committee in February 2013. No significant failings or weaknesses were identified from this review.
- An independent review by the company's reporter of the data that is submitted to Ofwat in respect of regulatory compliance.

This report was approved by the board of Directors on 31 May 2013


Claire Russell
Joint Company Secretary
31 May 2013

AUDIT COMMITTEE REPORT

Chairman's introduction to the audit report

We live in a time of greater public scrutiny of the financial affairs of many companies, particularly those in the public eye with much attention on transparency. The expectations of our Regulator, Ofwat, are reflecting this challenge. Our customers, our debt providers and our shareholders expect that the Audit Committee of the company will ensure that the highest standards of financial management and reporting are being achieved. We believe that the independence and rigour of the members of the Audit Committee (all of whom are independent Non-Executive Directors of the company) and our direct access to external advisors is crucial. Our intent is that our enquiries and challenges will ensure the high standards the board has set are being achieved. In addition to the formal meetings described below, I have had over the year, on behalf of the Committee, regular engagement with the partners of our external auditor and internal auditor and with the Finance Director.

Role of the Committee

The Audit Committee's role is to report to the board and thereby assist the board of Anglian Water Services Limited to discharge its oversight responsibilities. The Committee's primary functions are to

- Monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- Review financial statements and significant financial returns to regulators
- Review the integrity of the company's system of internal control and risk management
- Monitor and review the effectiveness of the internal audit function
- Oversee the relationship with the external auditor

- Monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- Review and approve the annual audit plan
- Monitor the provision of non-audit services by the external auditor

Membership and attendance

The Audit Committee comprises all the independent Non-Executive Directors and is chaired by Robert Napier. Mr Napier was formerly Financial Director of Redland Plc and has prior audit committee experience. Mr Napier is therefore considered by the board to have relevant financial experience. Only members of the Committee have the right to attend Committee meetings. However, the Committee invited the Chairman, Scott Longhurst, Managing Director of Finance & Non-Regulated Business, Peter Simpson, Managing Director AWS and members of Anglian Water Group Limited Audit Committee to attend meetings during the year. Representatives from the external auditor and internal audit also attended all or part of the Committee's meetings. The Committee also met separately with the external auditor and internal audit without management being present. The Company Secretary is Secretary to the Audit Committee.

Meeting frequency and main activities in the year

The Audit Committee met four times during the year ending 31 March 2013 and conducted the following business, the results of which were fully reported to the AWS board.

Meeting dates	Main activities
30 May 2012	<ul style="list-style-type: none"> Reviewed the preliminary results and draft Annual Report and Accounts for the financial year ending 31 March 2012 and the going concern statement Review of key issues and areas of judgement in relation to the 2012 financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, the assumptions used in calculating the pension scheme assets and liabilities, and a review of tangible assets for possible impairment) Considered reports by the external auditor on its audit and its review of the financial statements Considered material litigation affecting the company Reviewed the internal audit report Reviewed the Annual Statement of Responsibility by management with respect to internal controls environment Reviewed the draft press release Reviewed the draft regulatory accounts for AWS Met with both internal audit and the external auditor without management being present
28 November 2012	<ul style="list-style-type: none"> Reviewed interim results, accounts and draft press release Considered reports by the external auditor on its review of the interim results Reviewed reports on the Risk Register and UK Accounting Standards Received the internal audit report Considered the scope of the audit plan for the 2013 financial year Met with both internal audit and the external auditor without management being present
8 February 2013	<ul style="list-style-type: none"> Considered response to operational issues raised by a whistleblower including an internal audit report on relevant issues Reviewed recommendations for future actions
27 February 2013	<ul style="list-style-type: none"> Reviewed the Internal Audit Plan for 2013/14 Received the external auditor's report on the internal control environment

Whistleblowing programme

The group has a whistleblowing policy and programme in all its operations whereby employees can, in confidence, report on matters where they feel a malpractice is taking place, or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment.

The programme encourages employees to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline operated by group internal audit (GIA). GIA maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller to decide whether there are grounds

for further investigation. If so, allegations are then escalated to a designated person (Finance Director, Human Resources Director, Managing Director, Audit Committee or GIA). Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by GIA of each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released. This policy and related procedures and any allegations made via the process are monitored by the Audit Committee.

Non-audit services

A key factor that may impair the external auditor's independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Committee and must be robustly justified and, if appropriate, tendered, before it is approved.

The fees paid to the external auditor during the year are set out in note 7 to the financial statements on page 148. The non-audit fees in the year to 31 March 2013 were £0.3 million and predominantly related to regulatory reporting, assurance in relation to the annual offering circular and pension advisory services. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors.

Internal audit

The provision of internal audit services is outsourced to KPMG. KPMG was appointed by the company on 23 June 2011 following a competitive tendering process. During 2012/13 the Committee received regular reports from internal audit, which set out KPMG's view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

Independence of external auditor

PwC has been the company's auditor since 1989. To ensure the auditor's independence is safeguarded, lead audit partners rotate every five years. In September 2011, the external audit service was put out to competitive tender and PwC was successful in retaining its contract with the company. A new lead audit partner was selected as part of the re-tendering exercise. The Committee considers the relationship the company has with PwC annually and for the year ended 31 March 2013, the Committee was satisfied with the performance, objectivity and independence of PwC as the external auditor. The auditor, PwC, has indicated their willingness to stay in office and are deemed to be reappointed.

Committee performance and effectiveness

The board additionally undertook an annual review of the Committee's performance and effectiveness and concluded that the Committee operated effectively.

This report was approved by the board of Directors on 31 May 2013.

R S Napier

Chairman of the Audit Committee
31 May 2013



REMUNERATION REPORT

Chairman's letter

I am pleased to present the report on Directors' remuneration, which sets out the remuneration paid to the Executive Directors of Anglian Water Services Limited (AWS) in the financial year ended 31 March 2013, and the policy for the 2013/14 year

During 2012 the UK Government's Department for Business, Innovation & Skills (BIS) announced proposals for changes to the way in which Directors' remuneration is reported. The Remuneration Committee welcomes these moves towards greater transparency and disclosure on executive remuneration and has agreed to adopt some of the key requirements early. You will see that we have sought to include additional, more detailed information in this Report and Accounts, and we look forward to considering what further action we may need to take in next year's report.

The report therefore follows a new structure this year, which the Committee hopes you will find helpful and informative.

Company performance in 2012/13

As I have already described earlier in the Report and Accounts, 2012/13 was a year of very strong performance. Anglian Water was recognised as the top performing company for customer satisfaction in Ofwat's customer survey of all water and wastewater companies in England and Wales. Despite the challenges caused by extreme weather, from drought to the most extreme rainfall for 30 years, operational performance held up well, through tight cost control the company was able to make very significant efficiencies and reinvest to protect customers from the worst effects. At the same time, the company delivered its best ever leakage results and its best ever safety performance.

There has also been continued good progress on delivery of our Love Every Drop 'responsible business' targets. These achievements, which have been independently verified by SMC,

recently led to Business in the Community giving Anglian Water a Platinum 'Big Tick' award, and, for the first time, shortlisting us as one of the top five companies in England for our sustainability performance.

Remuneration in 2012/13

At the start of the year, the Remuneration Committee set targets for the annual bonus and the long-term incentive plan, which focused management on driving improvements to customer service, efficiency and operational performance, and ensuring financial returns, which maintained investor confidence, and enabled the company to borrow at rates that keep customer bills affordable.

As a result of the very strong company performance and the Remuneration Committee's assessment of performance against the personal objectives of each individual Executive Director, the annual bonus payments for 2012/13 were between 83 and 94% of annual bonus potential.

On 31 March 2012, the performance period came to an end for awards made in 2010 under the rules of the 2007 long-term incentive plan. These awards were based on performance from 1 April 2010 to 31 March 2013 against four key targets. Again, as a result of strong performance over the three-year performance period, the percentage of base award vesting is between 95 and 97%.

Further details of the bonus and the long-term incentive payments made to each Executive Director are included in the implementation section of this remuneration report.

Recognising the pressures on our customers from economic conditions and the need to keep bills affordable, neither Peter Simpson nor Scott Longhurst took a basic salary increase in 2012/13, the basic salary increases for Jean Spencer and Chris Newsome were 2.5%, compared with a general increase of 3% for the rest of the workforce.

Remuneration in 2013/14

In the light of the continued pressure on costs and need to keep bills affordable for customers, the senior executive team advised the Remuneration Committee that they will not take a pay increase in 2013 even if one were offered. They have also declined an additional bonus that we intend paying to the wider workforce in respect of financial outperformance delivered in 2012/13.

The Committee believes the remuneration policy and incentive framework currently in place are working well to support the company's strategy in the current economic environment, and to retain and motivate our experienced management team ahead of the next price review period. During 2013/14 the Committee will continue to ensure that the reward packages for our Executive Directors remain market competitive, incentivise company and individual performance while discouraging inappropriate risk taking, and ensure focus on the short- and long-term targets that are vital to the success of the business in the next regulatory period.



Sir Adrian Montague CBE

Chairman of the Remuneration Committee
May 2013

Remuneration policy report

This part of the Directors' remuneration report sets out the remuneration policy for AWS for the year ending 31 March 2013 along with any changes being made for 2013/14.

The Remuneration Committee

The Remuneration Committee is a committee of the board of Anglian Water Group Limited (AWG). The Committee has responsibility for setting remuneration policy and structure for the Executive Directors and senior management of AWS and also has oversight of the remuneration practice across the group. It is also responsible for setting the remuneration of the Chairman. The Committee has defined terms of reference, which are available from the Company Secretary on request.

Committee membership

The Committee is chaired by the company Chairman Sir Adrian Montague, and the other members are four of the Non-Executive Directors of AWG, Cressida Hogg, Niall Mills, André Bourbonnais and Christian Seymour.

Only Committee members are entitled to attend meetings, but the Group HR Director Kate Kelly and the Managing Directors, Peter Simpson and Scott Longhurst, attend by invitation. The Company Secretary Claire Russell acts as Secretary to the Committee. No attendee participates in discussions regarding their own remuneration.

How the Remuneration Committee sets the remuneration policy

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively, and to promote the success of the company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets. These targets are set by the Remuneration Committee based on key strategic priorities benefitting customers, investors and other stakeholders, and consistent with a board-approved level of risk.

The overall aim is that Executive Directors' remuneration should be market-competitive relevant to other comparable companies, and with a significant proportion being performance-related, and therefore only being paid out if stretching short-term and long-term targets are achieved.

In setting the remuneration policy for the Executive Directors, the Committee takes into account the remuneration practices found in other UK companies of a similar size or operating in the same sector. It also ensures that the remuneration arrangements for the Executive Directors are appropriate when compared with those for other senior executives, and the wider workforce.

In particular the Committee is kept informed on a regular basis of

- The level of salary increase for the general employee population
- Company-wide benefit provision and any proposed changes
- Overall spend on management bonus arrangements

The Committee also pays regard to how the total remuneration of the Executive Directors compares with the average pay of employees. In 2012/13, the basic salaries of the Managing Directors were frozen, and the general employee population received an increase of 3%.

While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels, and takes these into account when reviewing executive pay.

Investor representatives sit on the Remuneration Committee and are closely involved in setting remuneration levels, monitoring the performance of the Executive Directors, agreeing payments and approving any changes to reward packages. This close involvement ensures that shareholders play a key part in shaping remuneration policy and decisions, and that the link between pay and performance is robustly managed.

In the light of the disposal of Morrison Facilities Services Limited in November 2012, the role of the group's Remuneration Committee has become much reduced. We recognise that the independent Non-Executive Directors of the company have an important role to play in determining and challenging remuneration policy and practice. We intend to create an AWS Remuneration Committee in the 2013/14 year.

Summary of remuneration elements for the Executive Directors

The design of the total remuneration package for Executive Directors ensures that a substantial proportion of the maximum opportunity is dependent on performance.

Based on the maximum value of the 2010 long-term incentive plan award, and achievement of stretch performance against targets and personal objectives for the annual bonus, the total annual remuneration charged to the company (excluding pension benefits) is weighted at around 65% performance-related and 35% non-performance-related for Peter Simpson.

For Scott Longhurst it is around 50% performance-related and 50% non-performance-related.

For Chris Newsome and Jean Spencer it is around 60% performance-related and 40% non-performance-related.

The following table sets out the key elements of remuneration:

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics	Changes for 2013/14
Base salary				
Help recruit and retain employees Reflects individual experience and role	Reviewed annually and fixed for 12 months from 1 April. Decision influenced by: <ul style="list-style-type: none"> - Role, experience and performance - Average change in broader workforce salary and - Total organisational salary budgets Salaries are benchmarked against the FTSE 250 and other comparable utility companies.	Other than where an individual changes roles, or where benchmarking indicates that an individual's salary requires realignment to remain competitive, annual increases will not exceed the general level of increases for the company's employees.	n/a	No salary increases in 2013/14
Benefits				
Help recruit and retain employees	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	Costs between c£15,000-£25,000 for each Executive Director.	n/a	No changes proposed.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics	Changes for 2013/14
<p>Annual bonus</p> <p>Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives</p>	<p>Company targets are reviewed annually</p> <p>Personal objectives relate to areas of the business over which the Executive has particular control</p> <p>Bonus payment is determined by the Committee after the year end, based on performance against company targets and personal objectives</p>	<p>Between 50% and 100% of base salary for stretch performance</p> <p>100% of salary for Mr Simpson and Mr Longhurst</p> <p>75% of salary for Mr Newsome</p> <p>50% of salary for Mrs Spencer</p>	<p>Five financial and six non-financial metrics plus personal objectives. These are explained in more detail in the implementation report</p>	<p>No change proposed for 2013/14, but the Committee will carry out a review of annual bonus design during the year</p>
<p>Long-term incentive plan</p> <p>Incentivises Directors to deliver sustained long-term performance</p>	<p>Long-term incentive awards granted each year in June and are paid out in cash three years later, subject to the achievement of performance conditions</p> <p>The structure and quantum of new awards and eligibility are reviewed annually to ensure they continue to support our strategy</p>	<p>100% of salary for Mr Simpson and Mr Longhurst</p> <p>75% of salary for Mr Newsome and Mrs Spencer</p>	<p>Awards vest at the end of the three-year performance period, based on achievement of specified performance conditions. For awards granted in 2012 these were</p> <ul style="list-style-type: none"> - Average rate of return, - Service Incentive Mechanism (SIM) - Serviceability of assets and - Capital Delivery Index (CDI) 	<p>No changes proposed for 2013/14, but the Committee will be carrying out a review of the long-term incentive plan design during the year</p>
<p>Pension</p> <p>To attract and retain high-calibre individuals by providing good quality pension arrangements</p>	<p>AWS closed its defined benefit pension arrangement to new joiners in 2002, but Mr Simpson is still a member. Members pay different employee contributions depending on their accrual rate. Mr Simpson's accrual rate is 1/60th</p> <p>AWS also operates a defined contribution pension arrangement</p>	<p>The company has a contractual commitment to pay 25% of salary into a pension arrangement for Mr Longhurst, Mr Newsome and Mrs Spencer</p> <p>To avoid exceeding the lifetime allowance, Mr Longhurst ceased saving into the defined contribution arrangement during 2011/12</p> <p>The contractual promise in respect of company contributions into Mr Longhurst's pension is delivered through a cash payment, which is subject to tax and National Insurance contributions</p>	<p>n/a</p>	<p>In preparation for future reductions in the annual and lifetime allowances Mr Simpson ceased saving into the defined contribution pension arrangement from 1 April 2013</p>

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics	Changes for 2013/14
Pension (continued)	Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made. This supplement is subject to tax and National Insurance.	<p>Mr Longhurst remains covered for death benefits through the scheme.</p> <p>Mr Simpson is a member of the defined benefit section of the Anglian Water Group Pension Scheme (AWGPS).</p> <p>He pays 10% of his pensionable salary into the defined benefit section up to a cap which is currently £132,840. This cap is reviewed annually.</p> <p>The company has a contractual commitment to pay 15% of Mr Simpson's salary above the cap into the defined contribution section of the AWGPS.</p> <p>During 2012/13, Mr Simpson paid 5% of his salary above the cap into the defined contribution section up to HM Revenue and Customs' annual allowance for pension saving such that combined savings into his defined benefit and defined contribution pension arrangements did not exceed the annual allowance.</p> <p>Mr Newsome and Mrs Spencer participate in the defined contribution pension arrangement. They pay 6% of their salary into the defined contribution section up to the annual allowance.</p> <p>The balance of the company's contractual promise on pension contributions for Mr Newsome, Mr Simpson and Mrs Spencer was delivered as a cash payment which is subject to tax and National Insurance.</p>		

During 2012/13, Mr Longhurst's role included responsibility for corporate activities beyond the water company, including responsibility for our remaining international and property businesses, and Morrison Facilities Services Limited.

50% of Mr Longhurst's basic salary, benefits, pension and annual bonus costs are charged to the company. 100% of his long-term incentive arrangements are paid for by AWG.

In the light of the recent disposal of Morrison, these allocations will be reviewed during 2013/14.

90% of Mr Simpson's basic salary, benefits, pension and annual bonus costs, and 66% of his long-term incentives are charged to the company.

Annual bonus

The annual bonus is designed to incentivise performance against a basket of financial and non-financial targets, and a set of personal objectives for each Executive Director. In 2012/13 these comprised five key financial and six key non-financial metrics. The financial metrics

determined the payment of up to 50% of the corporate performance element, and the non-financial metrics determined the payment of the remaining 50%

The financial metrics were EBITDA, shareholder distribution capability, appointed opex, operating cash flow post interest and tax, and net cash flow

The non-financial metrics were the Service Incentive Mechanism (SIM), Capital Delivery Index (CDI), and four operational performance metrics covering our water and wastewater services

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 that indicate poor service, such as written complaints and telephone calls classed as unwanted (the quantitative part)

Companies' overall SIM scores, which include the quantitative part, are not published until after the Annual Accounts are finalised. The Remuneration Committee therefore determines an appropriate level of payment based on the qualitative part of SIM, and later in the year, when the overall SIM scores are available for all water and wastewater companies, considers 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

Further information on the CDI is included in the implementation report

The Committee sets both base targets and stretch targets for each metric

The Committee has determined that the bonus in respect of 2013/14 will be operated on substantially similar terms to 2012/13. There will be no change to the maximum bonus opportunities for Executive Directors

Long-term incentive plan

The AWG long-term incentive plan is designed to reward and incentivise senior executives who can influence the long-term performance of the

company and deliver sustained performance improvements over a three-year period. Under the rules of the long-term incentive plan, selected senior employees are granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a three-year performance period. Long-term incentive awards are granted each year in June and are paid out in cash three years later, subject to the achievement of performance conditions. The minimum vesting of the base award value is zero and maximum vesting is 100%. In addition, in order to align the interests of executives with those of shareholders, the payment is uplifted by the average annual rate of return over the performance period.

The Committee intends to make further awards in 2013, the performance conditions for the three-year performance period beginning in April 2013 will be the same as those used for the awards granted in 2012.

Executive Directors' service contracts

All Executive Directors appointed to the board are employed on service contracts of no fixed term, with a notice period of 12 months by the company and six months by the individual.

The following table shows the start date for each Executive Director

	Start date as Executive Director
Scott Longhurst	18 November 2004
Chris Newsome	24 September 2004
Peter Simpson	18 November 2004
Jean Spencer	20 May 2004

No Executive Director has any contractual rights to compensation on loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that in the event of a Director's contract being terminated, poor performance would not be rewarded. When calculating any termination payment, the Committee would take into account a range of factors

including the Executive Director's obligation to mitigate their own loss. Rights to any outstanding awards under long-term incentive plans would be dealt with by the Remuneration Committee in accordance with the rules of the relevant scheme.

No termination payments were made to Executive Directors in 2012/13.

Unless specifically approved by the Committee, Executive Directors are not permitted to hold external non-executive directorships. Our policy on remuneration is that Non-Executive Directors are permitted to retain the remuneration they receive in connection with their non-executive appointment.

Scott Longhurst is a Non-Executive Director of Candover Investments plc. His annual remuneration in respect of this role is £35,000.

Chairman and Non-Executive Directors

Terms of appointment

The Chairman and the other Non-Executive Directors have letters of appointment rather than service contracts.

Appointments may be terminated with six months' notice by either party (12 months in the case of Robert Napier). No compensation is payable to the Chairman or Non-Executive Directors if the appointment is terminated early.

The dates of the Chairman's and other Non-Executive Directors' letters of appointment and expiry of current terms are:

	Date of first appointment	Date of expiry of current terms
Sir Adrian Montague	29 January 2010	No fixed term
Christopher Garnett	1 December 2006	30 November 2015
Robert Napier	1 February 2002	30 June 2015
John Watkinson	12 May 2005	30 April 2017

The current policy is to retain the knowledge and experience of the Non-Executive Directors, subject to performance reviews.

Remuneration

The company's policy is to pay fees in line with those paid by other UK companies of a comparable size, and to appropriately reflect the level of responsibility and time commitment involved and the need to attract high-calibre individuals to these roles. Such fees may include additional payments to Non-Executive Directors who chair board committees, to reflect the significant additional responsibilities attached to these duties.

The Non-Executive Directors do not participate in any of the company's incentive schemes or pension schemes.

Sir Adrian Montague does not participate in any of the company's pension schemes or incentive schemes.

Remuneration policy beyond 2013/14

Given the level of uncertainty and structural change affecting the water industry, the Committee is mindful that current remuneration policy may need to be reviewed to ensure it remains appropriate for the longer term.

Implementation report

Remuneration Committee activities

Remuneration matters relating to the 2012/13 performance year were discussed at Remuneration Committee meetings held on 29 March 2012, 31 May 2012, 29 November 2012, 3 April 2013 and 23 May 2013. The items discussed at these meetings typically follow an established pattern, which is shown below

March/April	<ul style="list-style-type: none"> • Discussion of proposed design for the performance contract for the forthcoming financial year • Agreement of management philosophy in relation to nominations for the long-term incentive plan awards to be made in the forthcoming financial year • Proposed approach to senior executive performance and pay review in relation to the forthcoming financial year
May	<ul style="list-style-type: none"> • Approval of the performance contract outturn in respect of financial year just concluded - being the year under review ('past year') • Approval of vesting of the long-term incentive plan awards with a performance period ending in the past year • Review of performance of AWS Executive Directors during past year • Approval of bonus payments to AWS Executive Directors in relation to performance during the past year • Approval of pay awards to AWS Executive Directors for the forthcoming financial year • Approval of personal objectives for AWS Executive Directors for forthcoming financial year • Approval of the AWS performance contract for the forthcoming financial year • Approval of the long-term incentive plan awards to AWS employees to be made at the start of the forthcoming financial year
November	<ul style="list-style-type: none"> • Preliminary discussion of design of the long-term incentive plan for the following financial year • Review of succession planning

External advisors

The Committee did not seek advice from external remuneration consultants during 2012/13

Remuneration statement

This statement sets out information on the remuneration of the Executive Directors for the financial year ended 31 March 2013

salary, benefits and pension costs, and 90% of Mr Simpson's basic salary, benefits and pension costs, are paid by the company, which is the basis used for the amounts disclosed in the table below

Directors' remuneration 2012/13

The table below shows the remuneration paid by the company in respect of 2012/13 performance 50% of Mr Longhurst's basic

2012/13	Base salary/fee	Taxable benefits ¹	Cash payments in lieu of company pension contributions	Annual bonus scheme	2010 long-term incentive	Total 2012/13	Total 2011/12 (includes additional payment for 2011/12 SIM performance) ²	2012/13 company contributions to defined contribution pension
Scott Longhurst³	£217,500	£9,383	£54,375	£198,675	-	£479,933	£453,613	£3,045
Chris Newsome	£254,964	£24,592	£20,383	£152,165	£188,054 ⁴	£640,158	£609,393	£43,599
Peter Simpson	£391,500	£17,272	£21,472	£367,815	£476,546 ^{4 5}	£1,274,605	£1,064,890	£24,487
Jean Spencer	£184,755	£15,139	£5,866	£83,343	£143,085 ⁴	£432,188	£372,278 ⁶	£42,853
Sir Adrian Montague⁷	£150,000	-	-	-	-	£150,000	£150,000	-
Christopher Garnett	£35,000	-	-	-	-	£35,000	£35,000	-
Robert Napier	£45,000	-	-	-	-	£45,000	£45,000	-
John Watkinson	£35,000	-	-	-	-	£35,000	£35,000	-
	£1,313,719	£66,386	£102,096	£801,998	£807,685	£3,091,884	£2,765,174	£113,984

Notes

¹ Benefits include private health insurance, car allowance, private fuel and life assurance

² In addition to the above payments for 2012/13, the Executive Directors received an additional payment in respect of SIM performance in the 2011/12 performance year of £28,000. The background is explained in the policy report on page 123. Companies' overall SIM scores, which include the quantitative part, had not been published when the 2012 accounts were finalised. In May 2012, the Remuneration Committee approved a payment at base level for this metric, reflecting Anglian Water's position compared with other companies on the qualitative target. This payment was made in June 2012. The results of the quantitative part of the SIM were published later in 2012 and showed that the company had achieved its stretch target for the overall SIM metric for the 2011/12 year. The Remuneration Committee therefore approved an additional payment in accordance with the scheme design. This payment will be made in June 2013.

³ Mr Longhurst participates in long-term incentive arrangements paid for by AWG

⁴ This long-term incentive payment relates to the three-year performance period ending in March 2013

⁵ 100% of the cost of this long-term incentive payment to Mr Simpson was charged to the company

⁶ Mrs Spencer had a three-month sabbatical during 2011/12, using both annual holiday entitlement and a period of unpaid leave. This is reflected in her total remuneration for 2011/12.

⁷ Sir Adrian Montague's full fee as Group Chairman is £400,000 per annum. The table above shows the amount of this fee charged to the company.

Base salaries

The Remuneration Committee considers the remuneration increase for employees throughout the group when assessing the pay awards for each of the Executive Directors and senior managers. During the annual salary review in 2012, the Committee agreed that there should be no basic salary increases for Scott Longhurst and Peter Simpson, and that increases in basic salaries for senior management should be limited to 2.5% in contrast to the 3% increase agreed for all employees.

The bonus potentials for Executive Directors are different, and each has a different proportion of their bonus potential split between company and personal performance. In 2012/13, Peter Simpson and Scott Longhurst had the opportunity to earn an annual bonus of up to 100% of basic salary, of which an appropriate proportion will be payable by the company. Chris Newsome had the opportunity to earn a bonus of up to 75% of basic salary. Jean Spencer had the opportunity to earn a bonus of up to 50% of basic salary.

Annual performance bonus

As explained in the policy report on pages 122 and 123, the annual bonus for 2012/13 was based on performance against company targets and delivery against personal objectives.

Achievement against company targets is shown in the table below.

Performance metrics	2013 % of bonus available for stretch performance	2013 % achieved
Financial performance	50	47
Capital Delivery Index	15	15
Service Incentive Mechanism ¹ (SIM)	15	9
Operational performance metrics	20	12.7
Total²	100	83.7

Notes

¹ As explained in the policy report on page 123, the SIM measure has two parts – qualitative and quantitative. Companies' overall SIM scores, which include the quantitative part, had not been published when the accounts were finalised. The Remuneration Committee has therefore approved the payment above, reflecting Anglian Water's top position compared with other companies on the qualitative target. Later in 2013, when the overall SIM scores are available for all water and wastewater 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.

² The performance assessments for Mr Simpson and Mr Longhurst relating to the regulated business are based on 87.9% rather than 83.7% set out in the table above. This is because their contracts provide for 75% of their bonus to be paid for achievement of base targets, with up to 100% of the bonus for stretch performance. Other Executive Directors receive 60% of their bonus for achievement of base targets.

The table below shows the percentage of maximum annual bonus potential paid for each Executive Director in the 2012/13 year

	Corporate performance element 2013 % of bonus available for stretch performance	Corporate performance element 2013 % achieved	Personal objectives 2013 % of bonus available for stretch performance	Personal objectives 2013 % achieved	Additional corporate payment in respect of SIM performance for 2011/12 % of maximum bonus potential
Scott Longhurst	70	63	30	28	3
Chris Newsome	60	50	40	33	5
Peter Simpson	50	44	50	50	3
Jean Spencer	60	50	40	40	5

50% of Mr Longhurst's annual bonus costs are charged to the company 90% of Mr Simpson's annual bonus costs are charged to the company

The AWG long-term incentive plan

The performance conditions applicable to the 2010, 2011 and 2012 awards were as follows

Performance measure	Percentage of award relating to performance measure	Purpose of the measure	Performance condition over three-year period
Achievement of rates of return on the investment in AWG	2010 (50%) 2011 (50%) 2012 (40%)	Align interests with shareholders	Achieve a targeted average annual rate of return over the performance period Based on an independent assessment of the growth in value of the business over the performance period
Achievement of stable serviceability	2010 (25%) 2011 (20%) 2012 (20%)	Ensure appropriate focus on effective management of our assets to meet key regulatory targets and standards	This element of the award depends upon the determination by Ofwat that Anglian Water has achieved stable serviceability in relation to all four asset classes at the end of the performance period The four asset classes are water infrastructure, water non-infrastructure, sewerage infrastructure and sewerage non-infrastructure In order for this element of the award to vest in full internal targets for each of 20 performance parameters across the four asset classes must be achieved or exceeded The internal targets for each parameter have been set at a more stretching level than Ofwat's reference level
Achievement of targets in relation to the Capital Delivery Index (CDI)	2010 (25%) 2011 (20%) 2012 (20%)	To incentivise sustained, efficient delivery of the capital investment programme	The CDI is an aggregate index of four measures with CDI targets approved by the Remuneration Committee For 20% of the award to vest, the average CDI score must be 95% or above No award will vest for an average CDI score of 89% or less
Achievement of targets in relation to the Service Incentive Mechanism (SIM)	2010 (n/a) 2011 (10%) 2012 (20%)	Ensure appropriate focus on driving improvements to customer satisfaction Note SIM was introduced in 2010	The SIM is described on page 123 in the policy report During each year of the performance period, Ofwat will assess Anglian Water's performance in relation to the SIM In order for 20% of the award to vest at the end of the performance period, Anglian Water must maintain an average of third position among the water and sewerage companies (WaSCs) and must be in at least third position among the WaSCs in the final year of the performance period
Reduction factors	2010 (30%) 2011 (30%) 2012 (30%)	To ensure Executives pay appropriate regard to risk and company reputation	Awards may be reduced by up to 30% in the event that one or more of the reduction factors occurs during the performance period Reduction factors include material issues on water quality, reputation health and safety and credit rating The Remuneration Committee determines the extent to which the reduction factors do or do not occur

Maximum conditional cash awards granted under the long-term incentive plan are shown below ('base value of awards'). The actual amount paid will depend on the achievement of the

performance conditions and the rate of return over the relevant three-year performance period

The 2010 award under the AWG long-term incentive plan vested in May 2013

Award recipient	Date of award	End of performance period	Base value of awards held at 31 March 2012 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2013 £	Value of awards that vested at Remuneration Committee on 3 April and 23 May 2013 £
Peter Simpson	26 May 2010	31 March 2013	425,000		425,000	476,546 ¹
Peter Simpson	6 June 2011	31 March 2014	435,000		435,000	
Peter Simpson	1 June 2012	31 March 2015		435,000	435,000	
Peter Simpson	29 November 2012	31 March 2016		217,500 ²	217,500	
Scott Longhurst ³	26 May 2010	31 March 2013	637,500		637,500	960,625 ³
Scott Longhurst	31 March 2012	31 March 2014		435,000	435,000	
Scott Longhurst	1 June 2012	31 March 2015		435,000	435,000	
Scott Longhurst	1 June 2012	31 March 2016		217,500 ²	217,500	
Chris Newsome	26 May 2010	31 March 2013	172,500		172,500	188,054
Chris Newsome	6 June 2011	31 March 2014	177,675		177,675	
Chris Newsome	1 June 2012	31 March 2015		182,117	182,117	
Jean Spencer	26 May 2010	31 March 2013	131,250		131,250	143,085
Jean Spencer	6 June 2011	31 March 2014	135,188		135,188	
Jean Spencer	1 June 2012	31 March 2015		138,567	138,567	

¹ The cost of this long-term incentive payment to Mr Simpson was paid by the company

² Mr Longhurst and Mr Simpson also participate in an additional long-term incentive plan. This additional incentive plan is paid for by AWG and not charged to the company

³ The cost of Mr Longhurst's long-term incentives are paid by AWG and are not charged to the company

Pensions

Peter Simpson, Jean Spencer and Chris Newsome participate in the defined contribution section of the Anglian Water Group Pension Scheme (AWGPS) Mr Longhurst has ceased contributions into the scheme but remains covered for death in service benefits

Details of the contributions paid by the company in respect of these arrangements are shown below

	2013 £	2012 £
Scott Longhurst	£3,045	£17,170
Chris Newsome	£43,599	£43,639
Jean Spencer	£42,853	£42,436
Peter Simpson	£24,487	£6,949

The defined benefit section of the AWGPS was closed to new entrants in 2002. The scheme provides funded defined benefit pension arrangements. Peter Simpson is still a member and as explained in the policy report, contributes up to a capped salary level. Details of the pension benefits which accrued during the year to 31 March 2013 are summarised below

	Accrued pension at 31 March 2013	Accrued pension at 31 March 2012	Increase in accrued pension	Increase in transfer value less Director's contributions	Transfer value 2013	Transfer value 2012
Peter Simpson	£57,037	£51,639	£5,398	£98,178	£883,836	£772,374

90% of these costs are charged to the company

Statutory requirements

This remuneration report has been prepared on behalf of the board by the Remuneration Committee

The report was approved by the board on 31 May 2013 and signed on its behalf



Sir Adrian Montague CBE
Chairman of the Remuneration Committee

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 2013.

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 22. 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 105.

Financial instruments disclosures

Details are included on page 100 of the Business Review and in note 17 of the financial statements.

Principal activities

The company provides around 11 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 930 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 pages 98 and 137 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 100.

Health and safety

Details are included on pages 91 to 93.

Directors

Current Directors of the company are listed on pages 106 to 107 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.

As disclosed last year, 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. As part of the Love to Help programme, a volunteers' committee raised £28,800 through the sale of small items of scrap metal. The company donated this sum to a range of small community projects.

We also continue to provide support to WaterAid - our nominated charity (that transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities) - and do not offer charitable donations or sponsorships to other charities. During the year, the business donated £40,000 to WaterAid. With the support of many employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £393,000 for WaterAid (2012 £372,000) - the highest amount ever raised by this committee.

No political donations were made during the year (2012: £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.

Customers

The company values the opportunity to engage with customers across its region. This engagement takes a number of forms. Most recently, the company has been consulting with customers about its plans and priorities for the next AMP period. The company also engages with customers in relation to a range of issues in relation to which it aims to change customer behaviour. By way of example (and as detailed in our business review), during the spring of 2012, the company launched a campaign entitled Drop 20, which was designed to encourage customers to reduce their daily water consumption by 20 litres. The company places a high priority on excellent customer service and recognises employees who provide excellent service to customers. The board regularly reviews the results of a range of customer service surveys (including the quarterly SIM survey conducted by Ofwat).

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. We produce a regular employee newspaper, *Anglian Water News*, which is sent to employees at home. Phonecasts from senior managers, and the company's intranet are also widely used as sources 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. We recognise three trade unions, with whom we meet regularly for collective bargaining and consultation purposes. We have an active network of health and safety committees at which senior managers meet with trade union representatives to consult on matters affecting health and safety at work. We also operate a further elected employee forum Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and suggestions for change.

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 group has a whistleblowing policy, details of which can be found in the Audit Committee report on page 115. 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 2013 was 43 days (2012: 45 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.

Going concern

The Directors believe, after due and careful enquiry, that the company has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2013 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
31 May 2013

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 2013 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.

ACCOUNTS CONTENTS

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

STATUTORY ACCOUNTS		Regulatory historical-cost balance sheet	176
Group profit and loss account	137		
Group statement of total recognised gains and losses	138	Reconciliation between statutory accounts and regulatory accounts	177
Group and company balance sheets	139	Additional information required by the licence	178
Group cash flow statement	140	Current cost profit and loss account for the appointed business	186
Notes to the group cash flow statement	141		
Notes to the group financial statements	143	Current cost balance sheet for the appointed business	187
Independent auditors' report	171	Current cost cash flow statement	188
		Notes to the current cost financial statements	189
REGULATORY ACCOUNTS			
Regulatory accounts and required regulatory information	172	Supplementary regulatory information	200
Statement of Directors' responsibilities for regulatory information	173	Independent auditors' report	201
Regulatory historical cost profit and loss account	174	Glossary of regulatory terms	203
Regulatory statement of total recognised gains and losses (historical cost accounting) for the appointed business	175		

Group profit and loss account

for the year ended 31 March

Notes		2013 £m	2012 £m
2	Turnover	1,163.0	1,138.0
	Operating costs		
	- Operating costs before depreciation and exceptional operating profit	(445.8)	(433.0)
	- Depreciation net of amortisation of grants and contributions	(262.4)	(254.2)
4	- Exceptional operating profit	-	41.3
3	Total operating costs	(708.2)	(645.9)
	Operating profit	454.8	492.1
5	Net interest payable	(148.7)	(182.1)
6	Other finance charges	(4.4)	(5.5)
7	Profit on ordinary activities before taxation	301.7	304.5
8	Tax on profit on ordinary activities	(5.9)	(44.1)
	Profit for the financial year	295.8	260.4

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 year as stated above, and their historical cost equivalents

Group statement of total recognised gains and losses

for the year ended 31 March

Notes	2013 £m	2012 £m
Profit for the financial year	295.8	260.4
21 Actuarial loss recognised on the pension schemes	(45.8)	(34.6)
8 Current tax relating to the actuarial loss on the pension schemes	5.2	6.3
20 Movement on deferred tax relating to the actuarial loss on the pension schemes	5.8	2.7
20 Impact of change in tax rate on deferred tax on pension schemes	(0.2)	0.1
Total recognised gains and losses relating to the year	260.8	234.9

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

Group and company balance sheets

at 31 March

Notes		Group		Company	
		2013 £m	2012 £m	2013 £m	2012 £m
	Fixed assets				
12	Tangible assets	5,034.1	4,812.2	5,034.1	4,812.2
13	Investments	1,602.6	1,609.1	1,602.6	1,609.1
		6,636.7	6,421.3	6,636.7	6,421.3
	Current assets				
14	Stocks	10.0	9.2	10.0	9.2
15	Debtors	507.6	372.5	507.5	372.4
	Investments - money-market deposits	116.4	133.2	116.4	133.2
	Cash at bank and in hand (including short-term deposits)	961.6	564.6	924.2	522.9
		1,595.6	1,079.5	1,558.1	1,037.7
	Creditors: amounts falling due within one year				
16, 17	Short-term borrowings	(649.3)	(213.9)	(649.3)	(213.9)
16	Other creditors	(657.9)	(526.2)	(666.1)	(529.5)
		(1,307.2)	(740.1)	(1,315.4)	(743.4)
	Net current assets	288.4	339.4	242.7	294.3
	Total assets less current liabilities	6,925.1	6,760.7	6,879.4	6,715.6
	Creditors: amounts falling due after more than one year				
17	Loans and other borrowings	(5,690.3)	(5,426.4)	(5,690.3)	(5,426.4)
18	Other creditors	(135.2)	(136.1)	(135.2)	(136.1)
		(5,825.5)	(5,562.5)	(5,825.5)	(5,562.5)
19	Provisions for liabilities	(41.6)	(63.0)	(41.6)	(63.0)
	Net assets excluding pension liabilities	1,058.0	1,135.2	1,012.3	1,090.1
21	Defined benefit pension liabilities	(66.3)	(47.1)	(66.3)	(47.1)
	Net assets including pension liabilities	991.7	1,088.1	946.0	1,043.0
	Capital and reserves				
23	Called-up share capital	10.0	10.0	10.0	10.0
24	Profit and loss account	981.7	1,078.1	936.0	1,033.0
	Total shareholder's funds	991.7	1,088.1	946.0	1,043.0

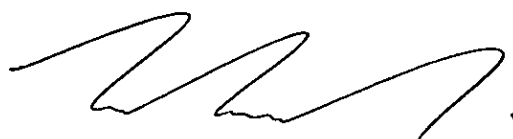
Notes 1 to 28 are an integral part of these consolidated financial statements

The financial statements on pages 137 to 170 were approved by the board of Directors on 31 May 2013 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	2013 £m	2012 £m
(a) Net cash inflow from operating activities	6911	6615
Returns on investments and servicing of finance		
Interest received	154.0	197.8
Interest paid	(232.3)	(226.1)
(d) Issue costs of new debt issued	(5.2)	(3.1)
Interest element of finance lease rental payments	(2.5)	(3.1)
Net cash outflow from returns on investments and servicing of finance	(86.0)	(34.5)
Taxation		
Corporation tax received	2.1	-
Payments to other Anglian Water Group Limited group undertakings	(12.9)	(18.0)
Net cash outflow for taxation	(10.8)	(18.0)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(524.8)	(358.6)
Grants and contributions received	21.9	22.7
Disposal of tangible fixed assets	1.9	1.4
Repayment of intercompany loan	6.5	-
Net cash outflow for capital expenditure and financial investment	(494.5)	(334.5)
Equity dividends paid to shareholders	(310.3)	(483.1)
Net cash outflow before management of liquid resources and financing	(210.5)	(208.6)
(c) Management of liquid resources		
(d) Increase in short-term deposits and investments	(299.8)	(71.7)
Financing		
(d) Increase in amounts borrowed	844.0	509.8
(d) Repayment of amounts borrowed	(249.8)	(202.9)
(d) Capital element of finance lease rental payments	(3.5)	(2.8)
Net cash inflow from financing	590.7	304.1
(d) Increase in cash	80.4	23.8

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

	2013 £m	2012 £m
Operating profit	454.8	492.1
Depreciation (net of amortisation of deferred grants and contributions)	262.4	254.2
Profit on sale of fixed assets	(1.4)	(1.3)
Difference between pension charge and cash contributions	(24.6)	(26.7)
Exceptional operating profit (non-cash item)	-	(41.3)
Net movement in provisions	(0.2)	(0.2)
	691.0	676.8
Working capital		
(Increase)/decrease in stocks	(0.8)	0.4
Increase in debtors	(88.9)	(40.7)
Increase in creditors	89.8	25.0
	0.1	(15.3)
Net cash inflow from operating activities	691.1	661.5

(b) Analysis of net debt

	1 April 2012 £m	Cash flows £m	Non-cash movements £m	31 March 2013 £m
Cash at bank and in hand	155.5	80.4	-	235.9
Deposits and investments	542.3	299.8	-	842.1
Short-term borrowings	(213.9)	214.2	(649.6)	(649.3)
Loans and other borrowings due after more than one year	(5,426.4)	(799.7)	535.8	(5,690.3)
	(4,942.5)	(205.3)	(113.8)	(5,261.6)

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of 'mark to market' adjustments. Included within deposits and investments above are £725.7 million (2012: £409.1 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.

Notes to the group cash flow statement continued

for the year ended 31 March

(d) Movement in net debt

	2013 £m	2012 £m
At 1 April	(4,942.5)	(4,586.1)
Net increase in cash	80.4	23.8
Increase in short-term bank deposits and investments	299.8	71.7
Increase in borrowings	(844.0)	(509.8)
Repayment of amounts borrowed	249.8	202.9
Capital element of finance lease rental payments	3.5	2.8
Issue costs of new debt issued	5.2	3.1
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	(2.9)	(2.0)
Indexation of loan stock and RPI swaps	(110.9)	(148.9)
At 31 March	(5,261.6)	(4,942.5)

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

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. The policies have been consistently applied to all the years presented, unless otherwise stated.

(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 within 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 £4.8 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 203).

Adopted assets, including private drains and sewers, are recognised at cost, which is generally Enil.

(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.

Notes to the group financial statements continued

1 Accounting policies continued

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

(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 tax

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

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

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

(l) 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 company 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

Notes to the group financial statements continued

1 Accounting policies continued

(o) Borrowings continued

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.

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

	2013 £m	2012 £m
Operating costs before depreciation and exceptional operating profit		
Raw materials and consumables	15.7	19.3
Other operating costs	325.6	319.3
Staff costs (see note 10)	168.2	155.0
Own work capitalised	(62.9)	(59.9)
Contribution to Anglian Water Assistance Fund	0.6	0.6
Profit on sale of fixed assets	(1.4)	(1.3)
Total operating costs before depreciation and exceptional operating profit	445.8	433.0
Depreciation of tangible fixed assets		
- owned	263.5	254.5
- held under finance leases	7.5	7.9
Amortisation of deferred grants and contributions	(8.6)	(8.2)
Depreciation net of amortisation of deferred grants and contributions	262.4	254.2
Exceptional operating profit	-	(41.3)
Total operating costs	708.2	645.9

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

	2013 £m	2012 £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 in 2012 (see note 21)

No tax charge arose from this exceptional profit

Notes to the group financial statements continued

5 Net interest payable

	2013 £m	2012 £m
Other loans including financing expenses	235.5	229.4
Indexation	110.9	148.9
Finance leases	2.4	2.9
Interest receivable from Anglian Water Services Holdings Limited	(192.7)	(193.6)
Other interest receivable	(7.4)	(5.5)
Net interest payable and similar items	148.7	182.1

6 Other finance charges

	2013 £m	2012 £m
Unwinding of discount and change in discount rates on provisions (see note 19)	1.5	2.8
Defined benefit pension scheme interest charge (see note 21(f))	2.9	2.7
Other finance charges	4.4	5.5

7 Profit on ordinary activities before taxation

	2013 £m	2012 £m
Profit before taxation is stated after charging/(crediting)		
Profit on disposal of tangible fixed assets	(1.4)	(1.3)
Hire of machinery and equipment	0.8	2.5
Other operating lease rentals	2.6	2.1
Research and development expenditure	0.2	0.1
During the year the group obtained the following services from the company's auditors		
Fees payable to the company's auditors for the audit of the parent company and consolidated financial statements	0.2	0.2
Fees payable to the company's auditors for other services		
- audit-related assurance services	-	-
- other assurance services	0.1	-
- other non-audit services	0.2	0.2
	0.5	0.4

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat £40,000 (2012 £37,000) 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, IFRS advice and risk management

8 Taxation

(a) Analysis of tax charge in the year

	2013 £m	2012 £m
Current tax		
UK corporation tax	32.1	39.8
Adjustments in respect of previous periods	(1.9)	(8.6)
Total current tax charge	30.2	31.2
Deferred tax		
Charge for timing differences arising in year	(1.8)	(6.1)
Impact of discounting on deferred tax liability	(17.6)	(8.7)
Impact of decrease in discount rates	7.3	34.1
Effect of reduction in corporation tax rate to 23% (2012 to 24%)	(4.6)	(5.1)
Adjustments in respect of previous periods	(7.6)	(1.3)
Total deferred tax (credit)/charge	(24.3)	12.9
Total tax charge on profit on ordinary activities	5.9	44.1

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £7.3 million (2012: £34.1 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 24% to 23% that is effective from 1 April 2013, 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 to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes, which are expected to be enacted in the Finance Act 2013, 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 21% from 1 April 2014 and to 20% from 1 April 2015 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 2014, by £11.7 million.

The current tax charge includes a credit of £1.7 million (2012: credit of £6.9 million) from another Anglian Water Group Limited group undertaking regarding expected liabilities for the utilisation of ACT.

The current tax adjustment in respect of previous periods relates to a credit for the agreement of prior year tax computations of £0.4 million (2012: credit of £3.5 million) and a credit to another group company for expected ACT utilisation of £1.7 million (2012: credit of £8.9 million) offset by a prior year capital allowances disclaimer charge of £0.2 million (2012: charge of £3.8 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 £192.7 million (2012: £193.6 million).

In addition to the current tax charge above, a £5.2 million (2012: £6.3 million) credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account.

Notes to the group financial statements continued

BUSINESS REVIEW

8 Taxation continued

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2012 lower) than the standard rate of corporation tax in the UK of 24% (2012 26%). The differences are explained below

	2013 £m	2012 £m
Profit on ordinary activities before tax	301.7	304.5
Profit on ordinary activities at the standard UK rate of corporation tax 24% (2012 26%)	72.4	79.2
Effects of		
Items not deductible for tax purposes	0.4	1.0
Items not taxable	(0.3)	(0.3)
Group relief utilised	(46.2)	(50.3)
Depreciation not eligible for tax purposes	4.0	4.1
Depreciation for the year in excess of capital allowances	0.7	18.3
Short-term timing differences	1.1	(12.2)
Adjustment to tax charge in respect of previous periods	(1.9)	(8.6)
Current tax charge for the year	30.2	31.2

The group relief utilised relates to losses surrendered by Anglian Water Services Holdings Limited on a nil charge basis

GOVERNANCE

9 Dividends

	2013 £m	2012 £m
Previous year final dividend	86.0	200.0
Current year interim dividend	78.5	90.0
Dividend paid by the company and retained within the Anglian Water Services Financing group	144.8	192.6
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	47.9	1.0
	357.2	483.6

A dividend of £192.7 million (2012 £193.6 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 £1,602.6 million (2012 £1,609.1 million). The prior year dividend committed of £1.0 million was paid in June 2012.

The Directors have proposed a final dividend for the year ended 31 March 2013 of £9.50 per share, which is a total of £95.0 million. This distribution has not been accounted for within the 2013 financial statements as it was proposed and approved after the year end.

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

10 Employee information and Directors' emoluments

(a) Employee information	2013 £m	2012 £m
Staff costs		
Wages and salaries	142.3	127.7
Social security costs	12.9	11.6
Pension costs - defined contribution (see note 21)	4.9	4.1
Pension costs - defined benefit (see note 21(f))	8.1	11.6
Staff costs excluding curtailment gain	168.2	155.0
Pension costs - curtailment gain (see notes 4 and 21)	-	(41.3)
	168.2	113.7

Staff costs for the year ended 31 March 2013 include £48.5 million (2012: £44.6 million) of costs that have been capitalised as 'own work capitalised'

	2013	2012
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	673	623
Wastewater Services	1,537	1,470
Customer Services	755	746
Asset Management and Other	966	926
	3,931	3,765

(b) Directors' emoluments	2013 £000	2012 ¹ £000
Total aggregate emoluments	2,284	2,285
Company contributions to defined contribution pension schemes	114	110
Benefits received under long-term incentive plans	808	480

¹ Aggregate emoluments for 2012 have been restated to include an additional payment made in 2012/13 in respect of performance in 2011/12. This payment related to performance against the SIM (customer satisfaction) target, and is explained further in the Remuneration Report on page 117. In addition, the 2012 aggregate emoluments have been restated to include a share of the Chairman's group salary for his services to Anglian Water to be consistent with the 2013 basis.

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2012: one Director) under a defined benefit pension scheme. Retirement benefits are accruing to three Directors (2012: four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited group undertakings.

Notes to the group financial statements continued

BUSINESS REVIEW

10 Employee information and Directors' emoluments continued

(c) Highest paid Director	2013	2012¹
	£000	£000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	1,275	1,065
Accrued defined benefit at year end	57	52

¹ Figures for 2012 have been restated for a performance-related payment as referred to in the aggregate emoluments note above

The company's contribution in respect of the highest paid Director into defined contribution pension schemes was £24,000 (2012 £7,000)

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 117

11 Profit for the financial year

The company has not 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 £295.2 million (2012 £259.6 million)

12 Tangible fixed assets

	Group and company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
Cost						
At 1 April 2012	39.6	3,271.1	3,988.4	918.9	346.9	8,564.9
Additions	-	-	-	-	504.4	504.4
Transfers on commissioning	0.8	129.8	163.9	75.5	(370.0)	-
Disposals	-	-	-	(9.1)	-	(9.1)
At 31 March 2013	40.4	3,400.9	4,152.3	985.3	481.3	9,060.2
Grants and contributions						
At 1 April 2012	-	(267.7)	-	-	(1.5)	(269.2)
Additions	-	(12.7)	-	-	1.5	(11.2)
At 31 March 2013	-	(280.4)	-	-	-	(280.4)
Depreciation						
At 1 April 2012	(4.8)	(957.5)	(1,834.2)	(687.0)	-	(3,483.5)
Charge for the year	(0.4)	(87.5)	(127.2)	(55.9)	-	(271.0)
Disposals	-	-	-	8.8	-	8.8
At 31 March 2013	(5.2)	(1,045.0)	(1,961.4)	(734.1)	-	(3,745.7)
Net book value						
At 31 March 2013	35.2	2,075.5	2,190.9	251.2	481.3	5,034.1
At 31 March 2012	34.8	2,045.9	2,154.2	231.9	345.4	4,812.2

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Tangible fixed assets at 31 March 2013 include land of £251 million (2012 £247 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	2013 £m	2012 £m
Cost	236.9	236.9
Aggregate depreciation	(171.6)	(164.1)
Net book value	65.3	72.8

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 2013.

	2013 £m	2012 £m
Contracted for but not provided in the financial statements	186.2	220.0

13 Fixed asset investments

	Group and company	
	2013 £m	2012 £m
Loan to Anglian Water Services Holdings Limited	1,602.6	1,609.1
Investment in Anglian Water Services Financing Plc	-	-

The loan of £1,062.6 million (2012 £1,609.1 million), made by the company to Anglian Water Services Holdings Limited, is repayable on the later of 30 July 2038 and another date being the next interest payment date following a date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Services Financing Plc. Interest on the loan is calculated at 12% per annum. During the year £6.5 million of the loan was repaid from amounts received on settlement of an intercompany tax debtor.

Anglian Water Services Financing Plc, whose principal activity is that of a financing company, is the sole subsidiary of the company. It is 100% owned, and is registered, incorporated and operating in the UK at 31 March 2013.

14 Stocks

	Group and company	
	2013 £m	2012 £m
Raw materials and consumables	10.0	9.2

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

Notes to the group financial statements continued

15 Debtors

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Amounts falling due within one year				
Trade debtors	191.5	176.6	191.5	176.6
Amounts owed by other Anglian Water Group Limited group undertakings	48.3	19	48.3	19
Other debtors	15.8	13.8	15.7	13.8
Prepayments and accrued income	251.3	179.3	251.3	179.2
	506.9	371.6	506.8	371.5
Amounts falling due after more than one year				
Amounts owed by other Anglian Water Group Limited group undertakings	0.7	0.9	0.7	0.9
	507.6	372.5	507.5	372.4

Prepayments and accrued income as at 31 March 2013 includes water and wastewater income not yet billed of £243.7 million (2012 £173.1 million). The increase in the accrued income is due principally to a change in the frequency of billing certain measured customers from six monthly to annually.

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Current portion of long-term loans	645.5	210.5	645.5	210.5
Obligations under finance leases	3.8	3.4	3.8	3.4
Short-term borrowings (see note 17)	649.3	213.9	649.3	213.9
Trade creditors	168.6	170.3	168.6	170.3
Amounts owed to other Anglian Water Group Limited group undertakings	48.0	10	157.8	107.9
Receipts in advance	205.4	121.0	205.4	121.0
Corporation tax	94.1	78.2	94.1	78.2
Other taxation and social security	3.4	3.4	3.4	3.4
Deferred grants and contributions	8.5	81	8.5	81
Accruals	129.9	144.2	28.3	40.6
Other creditors	657.9	526.2	666.1	529.5

Receipts in advance includes £188.8 million (2012 £107.4 million) relating to amounts received from customers for water and wastewater charges in respect of bills that fall due in the following year. The increase reflects a change in billing frequency for certain measured customers from six monthly to annually.

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

17 Loans, other borrowings and financial instruments

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Loans and other borrowings				
£100 million 12.375% fixed rate 2014 (d), (f), (i)	100.0	100.0	100.0	100.0
£250 million 5.837% fixed rate 2022 (d), (f)	248.1	247.9	248.1	247.9
£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)	244.3	244.2	244.3	244.2
£275 million 7.882% fixed rate 2012/2037 ¹ (d), (f), (g)	-	210.5	-	210.5
£250 million 5.25% fixed rate 2015 (b), (d), (f)	249.9	249.8	249.9	249.8
£150 million 5.5% fixed rate 2017/2040 ² (b), (d), (f), (g)	149.4	149.2	149.4	149.2
£150 million 4.125% index-linked 2020 (c), (d), (f)	220.7	214.2	220.7	214.2
£75 million 3.666% index-linked 2024 (c), (d), (f)	104.8	101.6	104.8	101.6
£200 million 3.07% index-linked 2032 (c), (d), (f)	278.0	269.6	278.0	269.6
£60 million 3.07% index-linked 2032 (c), (d), (f)	83.8	81.3	83.8	81.3
Finance leases (b), (d), (i)	55.9	59.3	55.9	59.3
£150 million index-linked swap 2024 (e), (f)	23.2	16.0	23.2	16.0
£175 million index-linked swap 2030 (e), (f)	27.0	18.5	27.0	18.5
£258 million index-linked swap 2013 (e), (f), (i)	92.3	78.6	92.3	78.6
€650 million 4.625% fixed rate 2013 (a), (b), (d), (f), (i)	453.2	453.1	453.2	453.1
£402 million 2.40% index-linked 2035 (c), (d), (f)	520.1	504.9	520.1	504.9
£50 million 1.7% index-linked 2046 (c), (d), (f)	62.6	60.7	62.6	60.7
£50 million 1.7% index-linked 2046 (c), (d), (f)	62.7	60.5	62.7	60.5
£40 million 1.7146% indexation bond 2056 (c), (d), (f)	50.4	48.9	50.4	48.9
£50 million 1.6777% indexation bond 2056 (c), (d), (f)	63.0	61.1	63.0	61.1
£60 million 1.7903% indexation bond 2049 (c), (d), (f)	75.5	73.3	75.5	73.3
£100 million 1.3784% indexation bond 2057 (c), (d), (f)	125.7	121.4	125.7	121.4
£50 million 1.3825% indexation bond 2056 (c), (d), (f)	62.8	60.7	62.8	60.7
£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)	24.8	19.8	24.8	19.8
£75 million 1.449% indexation bond 2062 (c), (d), (f)	89.5	85.5	89.5	85.5
£50 million 1.52% indexation bond 2055 (c), (d), (f)	59.6	56.9	59.6	56.9
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)	12.8	9.4	12.8	9.4
£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)	8.7	7.0	8.7	7.0
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)	393.2	392.9	393.2	392.9
£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)	60.7	99.0	60.7	99.0
EIB £50 million 1.626% index-linked term facility 2019 (c), (d), (f)	57.7	56.1	57.7	56.1
EIB £50 million 1.3% index-linked term facility 2020 (c), (f)	56.8	55.4	56.8	55.4
£130 million 2.262% index-linked bond 2045 (c), (d), (f)	144.0	140.0	144.0	140.0
US\$160 million 4.52% private placements 2021 (a), (b), (d), (f)	98.6	98.5	98.6	98.5
US\$410 million 5.18% private placements 2021 (a), (b), (d), (f)	258.8	258.6	258.8	258.6
EIB £75 million 0.53% index-linked term facility ⁴ 2027 (c), (d), (f)	77.4	75.3	77.4	75.3
EIB £75 million 0.79% index-linked term facility ⁴ 2027 (c), (d), (f)	77.4	75.3	77.4	75.3
£250 million 4.5% fixed rate 2027 (d), (f)	245.6	-	245.6	-

Notes to the group financial statements continued

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

17 Loans, other borrowings and financial instruments continued

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
£15 million 1.37% index-linked private placements 2022 (c), (d), (f)	15.0	-	15.0	-
£50 million 2.05% index-linked private placements 2033 (c), (d), (f)	50.6	-	50.6	-
£25.5 million 4.195% private placements 2017 (d), (f)	25.3	-	25.3	-
£31.9 million 3.983% private placements 2022 (d), (f)	31.7	-	31.7	-
£73.3 million 4.394% private placements 2028 (d), (f)	73.1	-	73.1	-
£22.3 million 3.983% private placements 2022 (d), (f)	22.1	-	22.1	-
US\$47 million 5.0% private placements 2022 (a), (d), (f)	29.7	-	29.7	-
EIB £150 million 0% index-linked term facility ⁵ 2028 (d), (f)	150.4	-	150.4	-
£200 million Class B 4.5% fixed rate 2026 (b), (d), (f)	197.4	-	197.4	-
Total loans and other borrowings	6,339.6	5,640.3	6,339.6	5,640.3
Less amounts included in creditors falling due within one year	(649.3)	(213.9)	(649.3)	(213.9)
Loans and other borrowings due after more than one year	5,690.3	5,426.4	5,690.3	5,426.4

¹ The coupon for this instrument increased to floating rate LIBOR plus 6.0% effective July 2012. The bond contained an issuer call option whereby from 30 July 2012 the bond could be redeemed on any interest payment date for 100% of the nominal amount of the bond. This provision was exercised on 30 July 2012 when the outstanding nominal amount on the bond was redeemed at par.

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

³ The basis for this instrument will change from fixed rate to floating rate three month LIBOR plus 10.9% effective June 2014. The bond contains an issuer call option whereby the bond can be redeemed at par on 11 June 2014 and each interest payment date thereafter. During the year to 31 March 2013 the group undertook a tender offer on the bond and redeemed and cancelled £391 million bonds of this instrument.

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

⁵ This instrument is amortising from 2018 until the date of maturity shown.

(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 £(16.2) million (2012: £3.4 million), the adjustment to the Euro loans is £(123.0) million (2012: £(111.8) million) and the adjustment to the Japanese Yen loan is £(48.7) million (2012: £(60.3) 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 146).

(c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI). The total increase in the capital value of index-linked loans during the year of £71.2 million (2012: £100.2 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 £39.7 million (2012: £48.7 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 2013.

(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 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 2013 this charge applies to £6,339.6 million (2012: £5,640.3 million) of the debt listed above.
- (i) Amounts repayable wholly or partly within one year

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

	2013		2012	
	Creditors < 1 year £m	Creditors > 1 year £m	Creditors < 1 year £m	Creditors > 1 year £m
Amounts owed to group undertakings	645.5	5,663.7	210.6	5,389.4
Debt issue costs	-	(25.5)	(0.1)	(18.9)
Obligations under finance leases	3.8	52.1	3.4	56.0
Finance lease issue costs	-	-	-	(0.1)
	649.3	5,690.3	213.9	5,426.4

Maturity analysis of financial liabilities

	Group and company	
	2013 £m	2012 £m
Less than one year	650.9	215.8
Between one and two years	73.1	640.9
Between two and five years	724.7	682.0
After five years	4,927.8	4,136.6
	6,376.5	5,675.3

Included above are amounts due under finance leases of £3.8 million (2012: £3.4 million) payable within one year, £8.8 million (2012: £3.7 million) payable between one and two years, £15.3 million (2012: £18.4 million) payable between two and five years and £28.0 million (2012: £33.8 million) payable after five years. The above maturity profile is determined by reference to the fixed dates on which the liability falls due.

In addition to loans and finance leases the above analysis includes other financial liabilities, including overdrafts, long-term creditors of £2.3 million (2012: £4.0 million) and provisions totalling £34.6 million (2012: £31.0 million), of which £1.6 million of provisions fall due in less than one year (2012: £1.9 million). This analysis is net of issue costs totalling £25.5 million (2012: £19.1 million).

Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

Borrowing facilities

	Group	
	2013 £m	2012 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	365.0	355 0
Expiring between two and five years	420.0	420 0
	785.0	775 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 October 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 132). The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

(a) Market risk

(i) Foreign currency

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

(ii) Interest rate

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

(iii) Commodity price risk

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

(b) Credit risk

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

(c) Liquidity risk

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

Financial instruments disclosures

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

Fair value of financial assets and financial liabilities

	2013		2012	
	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	961.6	961.6	564.6	564.6
Current asset investments	116.4	116.4	133.2	133.2
Short-term borrowings	(652.2)	(678.5)	(213.9)	(219.3)
Long-term borrowings	(5,686.5)	(6,784.3)	(5,446.0)	(6,235.3)
Interest rate swaps	187.9	225.2	168.7	244.1
Index-linked swaps	(188.8)	(717.9)	(149.1)	(583.4)
Net debt	(5,261.6)	(6,877.5)	(4,942.5)	(6,096.1)
Energy hedging instruments	-	(3.2)	-	(0.7)
Fixed asset investments	1,602.6	2,403.9	1,609.1	1,930.9
Provisions and long-term liabilities excluding deferred tax and pension obligations	(36.9)	(89.0)	(35.0)	(70.5)
	(3,695.9)	(4,565.8)	(3,368.4)	(4,236.4)

¹ The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £101.6 million (2012: £103.8 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, 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 2013. The value at that date was determined by market rates, which fluctuate over time.

Notes to the group financial statements continued

17 Loans, other borrowings and financial instruments continued

(c) Liquidity risk continued

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 2013. The value at that date was determined by market rates, which fluctuate over time.

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

Unrecognised gains and losses on hedges

	2013			2012		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	109.9	(505.0)	(395.1)	106.1	(374.8)	(268.7)
Reversal of items unrecognised at 1 April	(1.2)	-	(1.2)	(5.0)	-	(5.0)
Recognised during the year	(47.8)	61.3	13.5	(46.1)	50.1	4.0
Arising during the year	39.2	(203.5)	(164.3)	54.9	(180.3)	(125.4)
Unrecognised at 31 March	100.1	(647.2)	(547.1)	109.9	(505.0)	(395.1)

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 £547.1 million (2012: £395.1 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 2013.

Of the unrecognised gains and losses at 31 March 2013, a net gain of £24.4 million (2012: £14.6 million) is expected to be included in the profit and loss account for the year ended 31 March 2014 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 2013

	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	(6,339.6)	(3,475.8)	(673.2)	(2,190.6)	-	6.5%	10.8
Cash, deposits and current asset investments (all sterling)	1,078.0	-	1,078.0	-	-		
Net debt	(5,261.6)	(3,475.8)	404.8	(2,190.6)	-		
Fixed asset investments	1,602.6	-	-	1,602.6	-	12%	
Provisions	(34.6)	-	-	-	(34.6)		
Long-term liabilities	(2.3)	-	-	-	(2.3)		
Net financial liabilities	(3,695.9)	(3,475.8)	404.8	(588.0)	(36.9)		

¹ The underlying currencies of borrowings as set out on page 155 have been swapped to sterling.

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)		
Long-term liabilities	(4.0)	-	-	-	(4.0)		
Net financial liabilities	(3,368.4)	(3,150.0)	123.6	(307.0)	(35.0)		

¹ The underlying currencies of borrowings as set out on page 155 have been swapped to sterling

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

18 Other creditors falling due after more than one year

	Group and company	
	2013 £m	2012 £m
Deferred grants and contributions	132.9	132.1
Amounts owed to other Anglian Water Group Limited group undertakings	2.3	4.0
	135.2	136.1

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

19 Provisions for liabilities

	Group and company				
	Onerous lease obligation £m	Other onerous contracts £m	Coupon enhance- ment provision £m	Deferred tax provision £m	Total £m
At 1 April 2012	1.6	17.3	12.1	32.0	63.0
Charge/(credit) for the year	-	4.6	-	(25.0)	(20.4)
Unwinding of discount and change in discount rates (note 6)	0.1	-	1.4	-	1.5
Utilised in the year	(0.2)	-	(2.3)	-	(2.5)
At 31 March 2013	1.5	21.9	11.2	7.0	41.6

Notes to the group financial statements continued

19 Provisions for liabilities continued

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 10 years.

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

The coupon enhancement provision of £11.2 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 17 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 in the current year includes provisions for discounted deferred tax. Consequently, changes in the medium-term and long-term interest rates used to discount deferred tax assets and liabilities can affect the amount of deferred tax charged or credited in the profit and loss account.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £68.1 million.

	Group and company	
	2013 £m	2012 £m
Accelerated capital allowances	538.7	561.4
Short-term timing differences	(7.0)	(5.0)
Surplus ACT asset	(142.5)	(142.5)
Undiscounted provision for deferred tax	389.2	413.9
Discount	(382.2)	(381.9)
Discounted provision for deferred tax	7.0	32.0
Deferred tax asset on pension liability (see note 21(b))	(19.8)	(14.9)
Total deferred tax (asset)/liability included in the balance sheet	(12.8)	17.1
As at 1 April 2012	17.1	
Deferred tax credited to the profit and loss account (see note 8(a))	(24.3)	
Deferred tax credited to the statement of total recognised gains and losses	(5.6)	
At 31 March 2013	(12.8)	

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 disclosure below relates 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 the long-term sustainability of the pension scheme. These changes resulted in a non-cash curtailment credit of £41.3 million in 2011/12.

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 2013. 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 9 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 £4.9 million (2012: £4.1 million).

(a) Financial assumptions

The valuation used has been based on the full valuation for AWGPS carried out as at 31 March 2011, 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 2013. The group contributed 12.5% of pensionable pay in the year and for the year ending 31 March 2014 the expected contribution rate is 12.5%. In addition, the group paid £21.6 million in deficit reduction payments in the year and anticipates it will pay £22.2 million in 2014.

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

	2013 % pa	2012 % pa
Discount rate	4.3	4.8
Inflation rate		
- RPI	3.4	3.3
- CPI	2.6	2.5
Increase to deferred benefits during deferment		
- RPI	3.4	3.3
- CPI	2.6	2.5
Increases to inflation related pensions in payment ¹		
- RPI	3.3	3.2
- CPI	2.6	2.5
General salary increases ²	2.5/4.4	2.5/4.3

¹ For RPI pension increases capped at 7% pa.

² 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 pay/earnings 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 pay/earnings increases (4.4% pa) and RPI price inflation (3.4% pa) are both above 2.5% pa at 31 March 2013, the 2.5% cap on future pensionable salary increases is assumed to apply. Benefits earned 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.

Notes to the group financial statements continued

BUSINESS REVIEW

21 Pension commitments continued

(a) Financial assumptions continued

	2013	2012
Longevity at age 65 for current pensioners (years)		
Men	23.1	23.0
Women	25.3	25.2
Longevity at age 65 for future pensioners (years) ¹		
Men	24.9	24.8
Women	27.3	27.2

¹ The life expectancy shown for future pensioners is for those reaching 65 in 2033

(b) Amounts recognised in the balance sheet

The long-term expected rate of return and the assets in the scheme relating to the group at 31 March 2013 are

	Expected rate of return % pa	AWGPS Fair value £m	Unfunded pensions Fair value £m	Hartlepool Fair value £m	Total Fair value £m
Equities	7.3	283.8	n/a	2.3	286.1
Corporate bonds	5.5	419.2	n/a	-	419.2
Government bonds	4.3	207.1	n/a	15.9	223.0
Property	6.3	47.3	n/a	-	47.3
Alternatives	6.3	58.8	n/a	-	58.8
Other	0.5	22.6	n/a	1.7	24.3
Total assets		1,038.8	n/a	19.9	1,058.7
Fair value of scheme liabilities		(1,077.2)	(47.5)	(20.1)	(1,144.8)
Deficit in the scheme		(38.4)	(47.5)	(0.2)	(86.1)
Related deferred tax asset		8.8	10.9	0.1	19.8
Net pension liability		(29.6)	(36.6)	(0.1)	(66.3)

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

	Expected rate of return % pa	AWGPS (restated) Fair value £m	Unfunded pensions Fair value £m	Hartlepool Fair value £m	Total Fair value £m
Equities	6.3	251.6	n/a	3.1	254.7
Corporate bonds	4.6	395.5	n/a	-	395.5
Government bonds	3.3	202.4	n/a	14.4	216.8
Property	5.3	42.3	n/a	-	42.3
Alternatives	5.3	36.8	n/a	-	36.8
Other	0.5	17.5	n/a	-	17.5
Total assets²		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)

² The 31 March 2012 analysis of total assets for AWGPS has been restated to reflect repurchase agreements

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

(c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2012	(962.1)	(45.6)	(17.9)	(1,025.6)
Current service cost	(7.8)	-	(0.3)	(8.1)
Members' contributions	(3.9)	-	(0.1)	(4.0)
Net interest	(45.6)	(2.1)	(0.9)	(48.6)
Benefits paid	32.1	2.7	0.7	35.5
Actuarial loss	(89.9)	(2.5)	(1.6)	(94.0)
At 31 March 2013	(1,077.2)	(47.5)	(20.1)	(1,144.8)

	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)
Net interest	(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)

Notes to the group financial statements continued

21 Pension commitments continued

(d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2012	946.1	-	17.5	963.6
Expected return on scheme assets	45.0	-	0.7	45.7
Members' contributions	3.9	-	0.1	4.0
Employer's contributions	29.2	2.7	0.8	32.7
Benefits paid	(32.1)	(2.7)	(0.7)	(35.5)
Actuarial gain	46.7	-	1.5	48.2
At 31 March 2013	1,038.8	-	19.9	1,058.7

	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

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 £93.9 million (2012: £69.0 million).

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2013				
Total actuarial losses recognised	(43.2)	(2.5)	(0.1)	(45.8)
2012				
Total actuarial (losses)/gains recognised	(33.8)	(1.5)	0.7	(34.6)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £226.2 million (2012: £180.4 million).

(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
2013 profit and loss account				
Current service cost	(7.8)	-	(0.3)	(8.1)
Charged to operating profit (see note 10)	(7.8)	-	(0.3)	(8.1)
Expected return on pension scheme assets	45.0	-	0.7	45.7
Interest on pension scheme liabilities	(45.6)	(2.1)	(0.9)	(48.6)
Amount charged to other finance charges (see note 6)	(0.6)	(2.1)	(0.2)	(2.9)
Charged to profit on ordinary activities before taxation	(8.4)	(2.1)	(0.5)	(11.0)
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 6)	(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

Notes to the group financial statements continued

BUSINESS REVIEW

21 Pension commitments continued

(g) Historical information

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Plan assets	1,058.7	963.6	888.9	812.4	674.6
Defined benefit obligation	(1,144.8)	(1,025.6)	(981.6)	(1,008.5)	(773.4)
Deficit	(86.1)	(62.0)	(92.7)	(196.1)	(98.8)
Actual minus expected return on assets	48.2	18.2	21.8	96.0	(121.7)
Experience adjustments on plan liabilities	-	33.8	12.2	(19.0)	12.9

GOVERNANCE

22 Commitment under operating leases

At 31 March 2013 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			
	2013		2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.1	0.4	-	0.2
Within two and five years	1.0	0.3	12	0.6
After five years	1.9	-	18	-
	3.0	0.7	30	0.8

STATUTORY ACCOUNTS

23 Called-up share capital

	Group and company	
	2013 £m	2012 £m
Allotted, issued and fully paid		
10 million (2012 10 million) ordinary shares of £1 each	10.0	10.0

REGULATORY ACCOUNTS

24 Movement in shareholder's funds

Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2012	10.0	1,078.1	1,088.1
Total recognised gains and losses for the year	-	260.8	260.8
Dividends paid and committed	-	(357.2)	(357.2)
At 31 March 2013	10.0	981.7	991.7

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2012	10.0	1,033.0	1,043.0
Profit for the financial year	-	295.2	295.2
Actuarial loss recognised on the pension schemes	-	(45.8)	(45.8)
Current tax relating to the actuarial loss on the pension schemes	-	5.2	5.2
Movement on deferred tax relating to the actuarial loss on the pension schemes	-	5.8	5.8
Impact of change in tax rate on deferred tax on pension schemes	-	(0.2)	(0.2)
Dividends paid and committed	-	(357.2)	(357.2)
At 31 March 2013	10.0	936.0	946.0

25 Contingencies

At 31 March 2013 £142.5 million (2012 £142.5 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 £2.3 million as at 31 March 2013 (2012 £4.0 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 and derivatives of Anglian Water Services Financing Plc, which at 31 March 2013 amounted to £6,984.1 million (2012 £6,121.9 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 £1,602.6 million (2012 £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 2013.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging that we may have infringed the Competition Act 1998 in respect of our approach to pricing supplies to a housing development at Milton Keynes. We served a written response to Ofwat's Statement of Objections refuting the allegations in April 2012. In September 2012 we attended an oral hearing at which we made further representations to Ofwat. We are still waiting for Ofwat's decision as to the outcome of its investigation. If Ofwat rule against Anglian Water, the matter is expected to be immaterial in the context of our overall business.

There are no other material contingent liabilities at 31 March 2013 for which provision has not been made in these financial statements.

Notes to the group financial statements continued

26 Related party transactions

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

During the year to 31 March 2012, Anglian Water Services Financing Plc issued two 10 year US dollar private placements through the Commonwealth Bank of Australia. 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 (2012: £0.4 million).

27 Events after balance sheet date

The final dividend for 2012/13 of £95.0 million was approved by the board on 22 May 2013 for payment on 31 May 2013.

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, copies of which can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

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 at the above address.

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.

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 2013 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 135 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 2013 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
31 May 2013

Regulatory accounts and required regulatory information

BUSINESS REVIEW

The regulatory accounts and required regulatory information on pages 174 to 200 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 (UK GAAP) 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 203

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

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 2006 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

Regulatory historical cost profit and loss account

for the year ended 31 March

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

	2013			2012		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	1,147.0	16.0	1,163.0	1,123.3	14.7	1,138.0
Operating costs (before exceptional profit)	(439.5)	(7.7)	(447.2)	(426.9)	(7.4)	(434.3)
Infrastructure renewals charge	(87.5)	-	(87.5)	(75.9)	-	(75.9)
Historical cost depreciation	(174.5)	(0.4)	(174.9)	(177.8)	(0.5)	(178.3)
Exceptional operating profit	-	-	-	41.3	-	41.3
Operating income	1.4	-	1.4	1.3	-	1.3
Operating profit	446.9	7.9	454.8	485.3	6.8	492.1
Net interest payable	(153.7)	-	(153.7)	(188.4)	-	(188.4)
Profit on ordinary activities before taxation	293.2	7.9	301.1	296.9	6.8	303.7
Taxation						
- Current	(28.3)	(1.9)	(30.2)	(29.4)	(1.8)	(31.2)
- Deferred	24.3	-	24.3	(12.9)	-	(12.9)
Profit on ordinary activities after taxation	289.2	6.0	295.2	254.6	5.0	259.6
Profit for the year	289.2	6.0	295.2	254.6	5.0	259.6
Dividends	(351.2)	(6.0)	(357.2)	(478.6)	(5.0)	(483.6)
Transfer from reserves	(62.0)	-	(62.0)	(224.0)	-	(224.0)

REGULATORY ACCOUNTS

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

for the year ended 31 March

	2013 £m	2012 £m
Profit on ordinary activities after taxation	289.2	254.6
Actuarial loss recognised on the pension schemes	(45.8)	(34.6)
Current tax relating to the actuarial loss on the pension schemes	5.2	6.3
Movement on deferred tax relating to the actuarial loss on the pension schemes	5.8	2.7
Impact of change in tax rate on deferred tax on pension schemes	(0.2)	0.1
Total recognised gains and losses for the year	254.2	229.1

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Regulatory historical cost balance sheet

as at 31 March

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

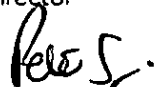
REGULATORY ACCOUNTS

	2013			2012 ¹		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	4,973.3	10.2	4,983.5	4,754.4	2.6	4,757.0
Investments						
- loan to group company	1,602.6	-	1,602.6	1,609.1	-	1,609.1
- other	-	-	-	-	-	-
Total fixed assets	6,575.9	10.2	6,586.1	6,363.5	2.6	6,366.1
Current assets						
Infrastructure renewals prepayment	50.6	-	50.6	55.2	-	55.2
Other current assets	1,556.2	1.9	1,558.1	1,035.9	1.8	1,037.7
Total current assets	1,606.8	1.9	1,608.7	1,091.1	1.8	1,092.9
Creditors: amounts falling due within one year						
Borrowings	(649.3)	-	(649.3)	(213.9)	-	(213.9)
Other creditors	(645.5)	(12.1)	(657.6)	(517.0)	(4.4)	(521.4)
Total creditors: amounts falling due within one year	(1,294.8)	(12.1)	(1,306.9)	(730.9)	(4.4)	(735.3)
Net current assets/(liabilities)	312.0	(10.2)	301.8	360.2	(2.6)	357.6
Total assets less current liabilities	6,887.9	-	6,887.9	6,723.7	-	6,723.7
Creditors: amounts falling due after one year						
Borrowings	(5,690.3)	-	(5,690.3)	(5,426.4)	-	(5,426.4)
Other creditors	(2.3)	-	(2.3)	(4.0)	-	(4.0)
Total creditors: amounts falling due after one year	(5,692.6)	-	(5,692.6)	(5,430.4)	-	(5,430.4)
Provisions for liabilities and charges	(249.3)	-	(249.3)	(250.3)	-	(250.3)
Net assets employed	946.0	-	946.0	1,043.0	-	1,043.0
Capital and reserves						
Called up share capital	10.0	-	10.0	10.0	-	10.0
Profit and loss account	936.0	-	936.0	1,033.0	-	1,033.0
Capital and reserves	946.0	-	946.0	1,043.0	-	1,043.0

¹ The format of the 2012 balance sheet has been restated to comply with RAG 307

The financial statements were approved by the board of Directors on 31 May 2013 and signed on its behalf by

Peter Simpson
Director



Scott Longhurst
Director



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

	2013 Statutory accounts £m	2013 Regulatory accounts £m	Explanation
Profit and loss account			
Turnover	1,163.0	1,163.0	No difference
Operating profit	454.8	454.8	No difference
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	5,034.1	4,983.5	The difference of £50.6 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 3.07
Current assets			
Infrastructure renewals prepayment	-	50.6	
Deferred income - grants and contributions			
Short-term and long-term other creditors	(141.4)		Deferred grants and contributions within the statutory accounts are analysed between creditors amounts falling due within one year (£8.5 million) and amounts falling due after more than one year (£132.9 million). This is in contrast to the regulatory accounts, which show total deferred grants and contributions of £141.4 million within provisions for liabilities and charges
Provisions for liabilities and charges		(141.4)	

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Additional information required by the Licence

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 8 on page 182)

An analysis of the regulatory historical cost profit and loss account and the regulatory historical cost balance sheet between appointed and non-appointed business is set out on pages 174 and 176. A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 186 and 187. Other current cost disclosures appear on pages 188 to 199. Additional information required by the Licence is shown on pages 178 to 185.

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 177.

2 Protection of the regulated business

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

3 Arm's-length trading

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

4 Historical cost accounting policies

The accounting policies are set out in the statutory financial statements, except that, as noted on page 178, under the Regulatory Accounting Guidelines (RAG) certain balances are treated differently in the regulatory accounts

(a) Infrastructure renewals expenditure

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 (RAG) 3.07. 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.

(b) Capitalisation policy

UK GAAP is used for reporting accounts for statutory requirements and UK GAAP as modified by Ofwat Regulatory Accounting Guidelines (RAG) for Regulatory reporting requirements.

Fixed assets are capitalised in accordance with FRS15 'Tangible fixed assets'. Expenditure incurred to create, to acquire, to materially extend the useful life of, or to enhance the capability of assets is capitalised. The cost of assets includes the purchase price and any costs directly attributable to bringing it into use. Costs directly attributable are the costs of own employees arising from the construction or acquisition of the asset, and incremental costs which would have been avoided if the asset had not been constructed or acquired.

Infrastructure Renewals Accounting is applied for long-life network assets. It effectively regards the whole quantum of individual assets as a single infrastructure asset. Infrastructure Renewals Accounting is based on an operational assessment of activity needed to maintain the serviceability of the underground infrastructure over a reasonably long period (typically 15 years).

Refurbishment and overhaul of plant and equipment is capitalised if this results in either an extension to the useful economic life of the asset or a substantial improvement in the quality of output from that asset.

There is a de minimus limit of £2,000 on capital expenditure. New or replacement single assets with a total cost below £2,000 are expensed unless they are part of a collective programme of related work approved in advance.

(c) Revenue recognition

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

- (i) 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 publicly available property data. Unoccupied and unfurnished 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.
- (ii) 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

Additional information required by the Licence continued

BUSINESS REVIEW

4 Historical cost accounting policies continued

(c) Revenue recognition continued

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) 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 and furnished or consumption is recorded, liability for water and sewerage charges commences, and revenue starts to accrue

(d) Bad debt

The bad debt provision is calculated based on applying expected recovery rates, based on actual historical cash collection performance, for an aged debt profile Debt is written off when it falls into one of the following categories

- The debt is the subject of insolvency proceedings and a claim has been submitted
- The customer has absconded and subsequent trace activities have proven unsuccessful
- County Court proceedings and attempts to recover the debt by a collection agency have been unsuccessful
- The age and value of debt make it uneconomic to pursue

There has been no change in provisioning policy during the year

(e) Accounting separation

In order to produce regulatory accounts, and in addition to the accounting structure used for internal management reporting, we have created a separate, regulatory cost structure in our financial system This means that directly coded water and sewerage operational costs can largely be assigned to the appropriate regulatory service and cost heading Further re-allocation of costs to service type is required in order to comply with reporting guidelines Where costs are not directly coded to a specific service, management have assessed the appropriate allocation

The allocation of support costs to Wholesale is carried out using a central consolidation model Each support business unit provides a summary of its costs by cost driver in line with RAG 4 04 definitions and business unit management determines the appropriate allocation of costs between services The allocation between services is reviewed annually to ensure that the basis of allocation is still appropriate

For Retail reporting, the reporting structure of our customer services business unit is closely aligned to the cost drivers on the Retail cost analysis shown in note 2 of the current cost financial statements The vast majority of costs reported in customer services, and therefore Retail, are coded at source with the allocation of costs between household and non-household based either on the cost drivers proposed by Ofwat or through management review of an appropriate allocation We allocate an appropriate share of all support overheads to the Retail function (for example Human Resources, IT and Finance) We review annually the basis of our cost allocation to Retail

Our accounts have been drawn up in accordance with the accounting separation methodology statement published on our website

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

5 Income and bad debt disclosures

In accordance with RAG 3.07 we highlight the following comments in respect of turnover for the year

- (i) Turnover for the year ended 31 March 2012 included a measured income accrual of £173.1 million. The value of billing recognised in the year ended 31 March 2013 for consumption in the prior year was £160.7 million. This has resulted in the recognition in the current year's turnover of an estimation difference for the prior year of £12.4 million, representing 1% of current year turnover and within acceptable tolerances for accounting estimates. Rebasement of the measured income accrual has had a bigger impact on turnover from water rather than sewerage, which partly explains the reduction in water turnover compared with the previous year as disclosed in the current cost profit and loss account.
- (ii) A change in billing frequency during the year has resulted in an increase in the value of the measured income accrual. Previously, household and non-household customers paying by direct debit were billed every six months. From August 2012, these customers are being transitioned to annual bills. As a result, the average charge period accrued for these customers is expected to increase from three to six months once the transition is complete. The measured income accrual in the current year is 33.6% (2012: 24.7%) of measured turnover.
- (iii) Turnover for 2012/13 amounted to £1,147.0 million (2011/12: £1,123.3 million) compared to a Final Determination (FD) target of £1,153.2 million (2011/12: £1,109.3 million), an under-performance of £6.2 million (2011/12: over-performance of £14.0 million). This underperformance is primarily due to reductions in the number of billed customers and demand against forecasts made in the FD.

The number of billed properties is below the level assumed in the FD by approximately 14,000 and 15,000 for water and sewerage respectively. This is primarily as a result of the depressed housing market. Water demand is down by approximately 6% against the FD. This is due to a number of reasons including the wet weather, efficiency programmes and the weak economy. However, this reduction has been partly offset by a smaller than expected meter-optant programme, which has resulted in smaller than expected revenue losses that occur when customers opt for a meter.

- (iv) The increase in trade debtors in the year is consistent with the regulatory price increase in the year and customer growth, partially offset by improved debt collection.

6 Changes to the Regulatory Accounting Guidelines (RAGs)

In February 2013 Ofwat published revised RAGs requiring changes to the presentation and disclosure of information in the regulatory accounts. These changes include new accounting separation tables to analyse operating costs and fixed assets, changes in the presentation and disclosure of the primary statements and certain notes.

The requirement to produce a current cost balance sheet and related notes has been removed. However, the company has retained the current cost balance sheet as this is considered important for an understanding of the current cost accounts. New tables have been included for debt and gearing, capital expenditure, grants and land sales and non-financial information.

These changes have no financial impact on the company's results and net assets. Comparative information has been restated where applicable.

7 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 3.07, details of Directors' pay can be found in the remuneration report on page 117.

Additional information required by the Licence continued

BUSINESS REVIEW

8 Information relating 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.

9 Allocation to principal service

- (a) Operating costs are incurred directly by the 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 the specific service and have not required allocation.

10 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 (i) below.

- (a) On 30 July 2002 £1,609.1 million was lent by the company to Anglian Water Services Holdings Limited. £6.5 million of this was repaid in October 2012. Receivables totalling £48.0 million were outstanding from other group companies at 31 March 2013 (2012: £1.9 million).
- (b) An amount payable of £8.3 million was owed to Anglian Water Services Financing Plc, at 31 March 2013 (2012: £3.4 million).

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Sums borrowed, including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2013, 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	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	60 9	2014	6 750
Fixed rate	250 0	2027	4 500
Fixed rate	25 5	2017	4 195
Fixed rate	31 9	2022	3 983
Fixed rate	73 3	2028	4 394
Fixed rate	22 3	2022	3 983
Fixed rate	30 0	2022	5 3775
Fixed rate	100 0	2026	4 500
Index-linked (i)	220 6	2020	4 125
Index-linked (i)	280 5	2032	3 070
Index-linked (i)	84 6	2032	3 070
Index-linked (i)	105 2	2024	3 666
Index-linked (i)	521 7	2035	2 400
Index-linked (i)	62 9	2046	1 700
Index-linked (i)	62 8	2046	1 700
Index-linked (i)	50 4	2056	1 7146
Index-linked (i)	63 0	2056	1 6777
Index-linked (i)	75 6	2049	1 7903
Index-linked (i)	125 8	2057	1 3784
Index-linked (i)	62 9	2056	1 3825
Index-linked (i)	89 5	2062	1 449
Index-linked (i)	59 7	2055	1 520
Index-linked (i)	57 9	2019	1 626
Index-linked (i)	56 9	2020	1 300
Index-linked (i)	145 7	2045	2 262
Index-linked (i)	77 5	2027	0 530
Index-linked (i)	77 5	2027	0 790
Index-linked (i)	15 3	2022	1 370
Index-linked (i)	50 9	2033	2 050
Index-linked (i)	150 5	2028	0 000
Floating rate	453 2	2030	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

Additional information required by the Licence continued

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

Type of loan	Principal amount (iv) £m	Repayment date	Interest rate %
Floating rate	251	2038	LIBOR plus 1130
Floating rate	991	2021	LIBOR plus 0 8875
Floating rate	1971	2021	LIBOR plus 2 64056
Floating rate	100 0	2026	LIBOR plus 2 16329
Index-linked swaps (ii)	92 3	2013	-
Index-linked swaps (ii)	23 3	2024	-
Index-linked swaps (ii)	270	2030	-
Index-linked swaps (ii)	24 8	2057	-
Index-linked swaps (ii)	12 8	2059	-
Index-linked swaps (ii)	8 7	2043	-
Swaption	-	2046	-
Swaption	-	2046	-
	6,309 2		

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 value of the notional capital on these index-linked swaps is 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

(c) Dividend policy

The company's dividend policy is to identify the cash available for distribution allowing for the business' liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment the Directors review the business performance forecasts (currently to the end of the current Asset Management Plan period 31 March 2015) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company's forecast cash flows. The Directors consider this cash based approach provides an acceptable return to the equity investors while ensuring the liquidity requirements of the business are fully met. The overall amount of the company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water Services Limited and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraint. This policy is consistent with Condition F of the Licence.

A dividend of £351.2 million is payable for the year (2012: £478.6 million). Of this dividend, £192.7 million (2012: £193.6 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 £1,602.6 million (2012: £1,609.1 million) (see note 10(a) on page 182).

(d) Guarantees/securities

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2013 amounted to £6,984.1 million (2012: £6,121.9 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 £1,602.6 million (2012: £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 2013 (2012: £nil).

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

(e) 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	0.8
Corporate responsibility and communications	AWG Group Limited	Actual costs	0.6
Treasury charges	AWG Group Limited	Actual costs	0.6
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	0.1
Sewerage and tankering and transport services	AWG Group Limited and Alpheus Environmental Ltd	Actual costs	0.2
			3.0

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	0.6
Internal audit services	AWG Group Limited	-	Negotiated	0.5
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	-
Building rental	AWG Group Limited	-	Pass through	0.1
10-year office lease	Ambury Developments	0.6	Other market testing	0.2
Rental of office accommodation	Ambury Developments	0.6	Other market testing	0.1
Bulk purchase of water	Ardleigh Reservoir Committee	1.2	Actual costs	0.8
				3.3

(f) Charitable and political donations

During the year, the business donated £40,000 (2012 £40,000) to WaterAid, its recognised charity

No political donations were made (2012 £nil)

The company made available £0.65 million (2012 £0.57 million) to the Anglian Water Assistance Fund, which paid a total of £0.5 million (2012 £0.6 million) directly to customers who qualified for assistance, and that amount is included as an operating cost in these financial statements

(g) Omissions of rights

No material omissions took place during the year

(h) Waivers

There were no material waivers during the year

(i) Compliance with Condition K

The company has been compliant with Condition K31 of the Licence throughout the year

Current cost profit and loss account for the appointed business

for the year ended 31 March

	2013			2012 ¹		
	Water £m	Sewerage £m	Total £m	Water £m	Sewerage £m	Total £m
Turnover						
Unmeasured						
- household	127.0	197.9	324.9	126.4	197.6	324.0
- non-household	0.8	1.6	2.4	0.9	1.6	2.5
Measured						
- household	209.2	348.3	557.5	206.7	346.7	553.4
- non-household	74.8	92.7	167.5	82.7	65.2	147.9
Trade effluent	-	7.1	7.1	-	8.4	8.4
Bulk supplies/inter-company payments	6.3	1.7	8.0	6.7	1.6	8.3
Third-party services (including non-potable water)	12.9	-	12.9	12.4	-	12.4
Other sources	34.8	31.9	66.7	34.8	31.6	66.4
Total turnover	465.8	681.2	1,147.0	470.6	652.7	1,123.3
Current cost operating costs						
- wholesale	(307.7)	(452.3)	(760.0)	(289.0)	(430.0)	(719.0)
- retail	(47.1)	(39.4)	(86.5)	(48.1)	(40.3)	(88.4)
Operating income	0.4	0.1	0.5	0.2	-	0.2
Working capital adjustment	(0.6)	(0.7)	(1.3)	(1.4)	(1.4)	(2.8)
Current cost operating profit, before exceptional profit	110.8	188.9	299.7	132.3	181.0	313.3
Exceptional operating profit			-			41.3
Current cost operating profit			299.7			354.6
Net interest			(153.7)			(188.4)
Financing adjustment			14.1			14.1
Current cost profit before taxation			160.1			180.3
Net revenue movement out of tariff basket	(1.0)	(0.1)	(1.1)	-	0.5	0.5
Back billing amount identified	-	-	-	0.3	0.1	0.4

¹ The format of the 2012 current cost profit and loss account has been restated to comply with RAG 3.07

The notes on pages 189 to 199 form part of these current cost financial statements

Current cost balance sheet for the appointed business

for the year ended 31 March

	2013 £m	2012 £m
Fixed assets		
Tangible assets	40,242.3	38,858.8
Third-party contributions since 31 March 1990	(9,396.2)	(9,062.2)
Investments		
- loan to group company	1,602.6	1,609.1
- others	-	-
Total fixed assets	32,448.7	31,405.7
Current assets		
Infrastructure renewals prepayment	50.6	55.2
Other current assets	1,556.2	1,035.9
Total current assets	1,606.8	1,091.1
Creditors: amount falling due within one year		
Short-term borrowings	(649.3)	(213.9)
Other creditors	(646.7)	(518.1)
Total creditors falling due within one year	(1,296.0)	(732.0)
Net current assets	310.8	359.1
Creditors: amounts falling due after more than one year		
Loans and other borrowings	(5,690.3)	(5,426.4)
Other creditors	(2.3)	(4.0)
Total creditors falling due after more than one year	(5,692.6)	(5,430.4)
Provision for liabilities and charges	(107.9)	(110.1)
Net assets employed	26,959.0	26,224.3
Capital and reserves		
Called up share capital	10.0	10.0
Profit and loss account	(425.0)	(194.9)
Current cost reserve	27,374.0	26,409.2
Total capital and reserves	26,959.0	26,224.3

The notes on pages 189 to 199 form part of these current cost financial statements

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

Current cost cash flow statement

for the year ended 31-March

	2013 Appointed £m	2012 Appointed £m
Current cost operating profit	299.7	354.6
Working capital adjustment	1.3	2.8
Movement in working capital	0.5	(14.9)
Current cost depreciation	319.5	304.7
Current cost profit on sale of fixed assets	(0.5)	(0.2)
Infrastructure renewals charge	87.5	75.9
Movement in provision	(24.8)	(68.2)
Net cash flow from operating activities	683.2	654.7
Returns on investments and servicing of finance	(86.3)	(35.0)
Taxation received	2.1	-
Payments to other Anglian Water Group Limited group undertakings	(11.0)	(16.2)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(441.9)	(274.7)
Receipts of grants and contributions	21.9	22.7
Infrastructure renewals expenditure	(82.9)	(83.9)
Disposal of fixed assets	1.9	1.4
Movements on long-term group loans to group companies	6.5	-
Net cash outflow from investing activities	(494.5)	(334.5)
Equity dividends paid	(304.3)	(478.1)
Net cash outflow from management of liquid resources	(305.4)	(62.0)
Net cash outflow before financing	(516.2)	(271.1)
Net cash inflow from financing	590.7	304.1
Increase in cash	74.5	33.0

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

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 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 179 as required by Regulatory Directive (RD) 05/08.

(c) Tangible fixed assets

Tangible fixed assets have been valued in accordance with Regulatory Accounting Guideline 104 (Guideline for accounting for current costs and regulatory capital values) on a Modern Equivalent Asset (MEA) basis.

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

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

(i) Land and buildings

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

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

(ii) Infrastructure assets

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

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

(iii) Other fixed assets

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

(iv) Surplus land

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

Notes to the current cost financial statements continued

BUSINESS REVIEW

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 5.

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.

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

2 Operating cost analysis

for the year ended 31 March 2013 (wholesale business only)

	Water				Sewerage				Water and sewerage	
	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewage sub-total £m	Total £m
Operating expenditure										
Power	6.1	2.9	5.1	9.9	24.0	6.9	17.8	4.1	-	28.8
Income treated as negative expenditure	-	(0.1)	(0.1)	(0.2)	(0.4)	-	(0.4)	(2.4)	-	(2.8)
Service charges	10.3	0.4	-	-	10.7	1.2	5.7	-	-	6.9
Bulk supply imports	-	-	1.2	-	1.2	-	-	-	-	1.2
Other operating expenditure	8.5	1.9	20.7	39.6	70.7	41.5	56.6	47.9	6.3	152.3
Local authority rates	3.1	0.5	6.1	31.1	40.8	0.1	19.3	3.7	-	23.1
Total operating expenditure excluding third-party services	28.0	5.6	33.0	80.4	147.0	49.7	99.0	53.3	6.3	208.3
Capital maintenance										
Infrastructure renewals charge	4.5	0.3	-	46.6	51.4	36.1	-	-	-	36.1
Current cost depreciation	11.6	0.9	53.1	38.3	103.9	47.0	138.6	23.9	1.6	211.1
Amortisation of deferred credits	-	-	(2.8)	(0.6)	(3.4)	(0.3)	(4.8)	(0.1)	-	(5.2)
Total capital maintenance excluding third-party services	16.1	1.2	50.3	84.3	151.9	82.8	133.8	23.8	1.6	242.0
Third-party services										
Operating expenditure	1.5	0.9	1.1	1.1	4.6	-	0.4	0.4	-	0.8
Current cost depreciation	-	-	4.2	-	4.2	-	1.2	-	-	1.2
Total operating costs	45.6	7.7	88.6	165.8	307.7	132.5	234.4	77.5	7.9	452.3
										760.0

Notes to the current cost financial statements continued

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

2 Operating cost analysis continued

for the year ended 31 March 2012 (wholesale business only)

	Water			Sewerage			Water and sewerage			
	Resources Em	Raw water distribution Em	Treatment Em	Treated distribution Em	Water sub-total Em	Sewerage collection Em	Sewerage treatment Em	Sludge disposal Em	Sewerage sub-total Em	Total Em
Operating expenditure										
Power	59	30	50	96	235	60	167	34	261	496
Income treated as negative expenditure	-	(01)	-	(01)	(02)	-	(07)	(23)	(30)	(32)
Service charges	125	04	-	-	129	11	56	-	67	196
Bulk supply imports	-	-	12	-	12	-	-	-	-	12
Other operating expenditure	87	18	212	383	700	371	572	450	1460	2160
Local authority rates	29	05	55	296	385	-	201	34	235	620
Total operating expenditure excluding third-party services	300	56	329	774	1459	442	989	495	1993	3452
Capital maintenance										
Infrastructure renewals charge	32	02	-	408	442	317	-	-	317	759
Current cost depreciation	105	09	478	337	929	461	1328	219	2023	2952
Amortisation of deferred credits	-	-	(26)	(05)	(31)	(02)	(48)	-	(50)	(81)
Total capital maintenance excluding third-party services	137	11	452	740	1340	776	1280	219	2290	3630
Third-party services										
Operating expenditure	17	09	11	13	50	-	03	02	05	55
Current cost depreciation	-	-	41	-	41	-	12	-	12	53
Total operating costs	454	76	833	1527	2890	1218	2284	716	4300	7190

for the year ended 31 March 2013 (retail business only)

	Household £m	Non- household £m	Total £m
Operating expenditure			
Customer services	13.9	1.9	15.8
Debt management	7.4	1.0	8.4
Doubtful debts	29.7	1.1	30.8
Meter reading	3.4	0.3	3.7
Services to developers	-	0.3	0.3
Other operating expenditure	16.6	3.0	19.6
Local authority rates	0.2	-	0.2
Total operating expenditure	71.2	7.6	78.8
Capital maintenance			
Current cost depreciation	6.7	1.0	7.7
Total capital maintenance	6.7	1.0	7.7
Total operating costs	77.9	8.6	86.5
Debt written off	18.2	1.5	19.7

for the year ended 31 March 2012 (retail business only)

	Household £m	Non- household £m	Total £m
Operating expenditure			
Customer services	13.0	1.8	14.8
Debt management	6.2	0.9	7.1
Doubtful debts	29.7	4.2	33.9
Meter reading	3.4	0.3	3.7
Services to developers	-	0.2	0.2
Other operating expenditure	13.9	2.4	16.3
Local authority rates	0.1	-	0.1
Total operating expenditure	66.3	9.8	76.1
Capital maintenance			
Current cost depreciation	10.3	2.0	12.3
Total capital maintenance	10.3	2.0	12.3
Total operating costs	76.6	11.8	88.4
Debt written off	17.6	1.6	19.2

Notes to the current cost financial statements continued

BUSINESS REVIEW

GOVERNANCE

STATUTORY ACCOUNTS

3 Current cost analysis of fixed assets (wholesale business only)

	Water				Sewerage				Water and sewerage Total £m
	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	
Non-infrastructure assets									
Gross replacement cost									
At 1 April 2012	319.2	1,537.0	1,295.2	3,181.1	2,295.8	4,287.8	557.0	18.2	7,158.8
RPI adjustment	10.5	50.4	42.5	104.4	75.3	140.7	18.3	0.6	234.9
Disposals	(0.6)	(0.6)	(10.0)	(11.2)	(1.1)	(0.8)	(0.5)	(0.1)	(2.5)
Additions ¹	11.8	72.2	52.1	136.4	28.2	108.6	60.6	2.0	199.4
At 31 March 2013	340.9	1,659.0	1,379.8	3,410.7	2,398.2	4,536.3	635.4	20.7	7,590.6
Depreciation									
At 1 April 2012	(194.6)	(959.2)	(732.0)	(1,904.5)	(1,561.3)	(2,780.5)	(335.8)	(14.0)	(4,691.6)
RPI adjustment	(6.4)	(31.5)	(24.0)	(62.5)	(51.2)	(91.2)	(11.0)	(0.5)	(153.9)
Disposals	0.1	0.4	9.9	10.4	1.0	0.6	0.4	0.1	2.1
Charge for year	(11.6)	(57.3)	(38.3)	(108.1)	(47.0)	(139.8)	(23.9)	(1.6)	(212.3)
At 31 March 2013	(212.5)	(1,047.6)	(784.4)	(2,064.7)	(1,658.5)	(3,010.9)	(370.3)	(16.0)	(5,055.7)
Net book value at 31 March 2013	128.4	611.4	595.4	1,346.0	739.7	1,525.4	265.1	4.7	2,534.9
Net book value at 1 April 2012	124.6	577.8	563.2	1,276.6	734.5	1,507.3	221.2	4.2	2,467.2
Infrastructure assets									
Gross replacement cost									
At 1 April 2012	454.3	112.3	6,832.1	7,398.7	27,528.4	167.1	-	-	27,695.5
RPI adjustment	14.9	3.7	224.1	242.7	903.1	5.4	-	-	908.5
Additions ¹	1.1	0.1	31.3	32.5	63.6	-	-	-	63.6
At 31 March 2013	470.3	116.1	7,087.5	7,673.9	28,495.1	172.5	-	-	28,667.6

¹ Includes adopted assets of £24.4 million

(retail business only)

	Household £m	Non- household £m	Total £m
Non-infrastructure assets			
Gross replacement cost			
At 1 April 2012	104.6	29.3	133.9
RPI adjustment	3.5	1.0	4.5
Disposals	(0.3)	-	(0.3)
Additions	5.3	0.8	6.1
At 31 March 2013	113.1	31.1	144.2
Depreciation			
At 1 April 2012	(89.0)	(24.1)	(113.1)
RPI adjustment	(2.9)	(0.8)	(3.7)
Disposals	0.2	-	0.2
Charge for year	(6.7)	(1.0)	(7.7)
At 31 March 2013	(98.4)	(25.9)	(124.3)
Net book value at 31 March 2013	14.7	5.2	19.9
Net book value at 1 April 2012	15.6	5.2	20.8

Notes to the current cost financial statements continued

BUSINESS REVIEW

3 Current cost analysis of fixed assets continued

In the preparation of its statutory financial statements, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as permitted by FRS 15 for tangible fixed assets. However, for the purposes of the regulatory financial statements, Ofwat has permitted 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 2013 per regulatory financial statements	47,487.0
Adjustment to opening balance at 31 March	(38,509.7)
Infrastructure renewals expenditure capitalised in the year	82.9
At 31 March 2013 per statutory financial statements¹	9,060.2
Grants and contributions	
At 31 March 2013 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(280.4)
At 31 March 2013 per statutory financial statements	(280.4)
Depreciation	
At 31 March 2013 per regulatory financial statements	(7,244.7)
Adjustment to opening balance at 31 March	3,586.5
Depreciation charge for infrastructure renewals expenditure	(87.5)
At 31 March 2013 per statutory financial statements¹	(3,745.7)
Net book value	
At 31 March 2013 per regulatory financial statements	40,242.3
Adjustment to opening balance at 31 March	(35,203.6)
Infrastructure renewals expenditure capitalised in the year	82.9
Depreciation charge for infrastructure renewals expenditure	(87.5)
At 31 March 2013 per statutory financial statements¹	5,034.1
Infrastructure renewals prepayment	
At 31 March 2013 per regulatory financial statements	50.6
Less infrastructure renewals prepayment	(50.6)
At 31 March 2013 per statutory financial statements	-

¹ The statutory financial statements include non-appointed fixed assets with net book value at 31 March 2013 of £10.2 million (2012: £2.6 million).

GOVERNANCE

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

4 Analysis of capital expenditure, grants and land sales

for the year ended 31 March

	2013			2012		
	Gross £m	Grants and contributions £m	Net £m	Gross £m	Grants and contributions £m	Net £m
Capital expenditure - water						
Base						
Infrastructure renewals expenditure (IRE)	48.7	-	48.7	48.8	-	48.8
Maintenance non-infrastructure (MNI)	83.4	-	83.4	67.6	-	67.6
Enhancements						
Infrastructure enhancements	32.5	(8.2)	24.3	24.1	(9.3)	14.8
Non-infrastructure enhancements	55.7	(4.2)	51.5	50.7	(4.8)	45.9
Total capital expenditure - water	220.3	(12.4)	207.9	191.2	(14.1)	177.1
Grants and contributions - water						
Developer contributions (ie enhancement requisitions, grants and contributions)		(7.4)			(9.3)	
Infrastructure charge receipts - new connections		(5.0)			(4.8)	
Total grants and contributions - water		(12.4)			(14.1)	
Capital expenditure - sewerage						
Base						
Infrastructure renewals expenditure (IRE)	34.2	(0.2)	34.0	35.1	-	35.1
Maintenance non-infrastructure (MNI)	124.6	-	124.6	103.0	-	103.0
Enhancements						
Infrastructure enhancements	41.3	(3.7)	37.6	27.2	(3.5)	23.7
Non-infrastructure enhancements	76.1	(4.7)	71.4	50.8	(4.3)	46.5
Total capital expenditure - sewerage	276.2	(8.6)	267.6	216.1	(7.8)	208.3
Grants and contributions - sewerage						
Developer contributions (ie enhancement requisitions, grants and contributions)		(3.0)			(2.8)	
Infrastructure charge receipts - new connections		(5.6)			(5.0)	
Total grants and contributions - sewerage		(8.6)			(7.8)	
Total capital expenditure - water and sewerage	496.5	(21.0)	475.5	407.3	(21.9)	385.4
Land sales - proceeds from disposals of protected land			1.0			1.1

Notes to the current cost financial statements continued

BUSINESS REVIEW

5 Working capital

	2013 £m	2012 £m
Stocks	10.0	9.2
Trade debtors - measured household	78.1	73.8
Trade debtors - unmeasured household	61.8	63.4
Trade debtors - measured non-household	19.5	19.0
Trade debtors - unmeasured non-household	0.6	0.9
Other trade debtors	31.5	19.4
Measured income accrual	243.7	173.1
Prepayments and other debtors	18.5	16.3
Trade creditors	(100.3)	(82.7)
Deferred income - customer advance receipts	(205.4)	(121.0)
Short-term capital creditors	(68.3)	(87.6)
Accruals and other creditors	(77.2)	(43.7)
Total working capital	12.5	40.1
Total revenue outstanding ¹		
- household	295.5	282.4
- non-household	42.5	41.2

¹ Excluding bad debt provision and bad debt write offs

GOVERNANCE

6 Analysis of net debt, gearing and interest costs

at 31 March 2013

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	(2,190.6)	(673.2)	(3,475.8)	(6,339.6)
Total borrowings	(2,190.6)	(673.2)	(3,475.8)	(6,339.6)
Cash				922.3
Short-term deposits				116.4
Net debt				(5,300.9)
Regulatory capital value				6,653.0
Gearing				79.1%
Full year equivalent nominal interest cost ²	(134.4)	(13.0)	(165.9)	(313.3)
Full year equivalent cash interest payment	(134.4)	(13.0)	(76.8)	(224.2)
Indicative interest rates				
Indicative weighted average nominal interest rate	6.1%	1.9%	4.8%	4.9%
Indicative weighted average cash interest rate	6.1%	1.9%	2.2%	3.5%
Weighted average years to maturity	10.9	3.8	21.5	16.0

² Based on long-term average RPI of 2.5%

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

at 31 March 2012

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	(1,915.7)	(573.8)	(3,150.8)	(5,640.3)
Total borrowings	(1,915.7)	(573.8)	(3,150.8)	(5,640.3)
Cash				521.1
Short-term deposits				133.2
Net debt				(4,986.0)
Regulatory capital value				6,266.1
Gearing				78.9%
Full year equivalent nominal interest cost ¹	(113.5)	(16.1)	(153.9)	(283.5)
Full year equivalent cash interest payment	(113.5)	(16.1)	(73.1)	(202.7)
Indicative interest rates				
Indicative weighted average nominal interest rate	5.9%	2.8%	4.9%	5.0%
Indicative weighted average cash interest rate	5.9%	2.8%	2.3%	3.6%
Weighted average years to maturity	10.1	3.2	22.9	16.5

¹ Based on long-term average RPI of 2.5%**7 Current cost profit and loss account**

	2013 £m	2012 £m
At beginning of the year	(194.9)	171.2
Transfer from profit and loss account for the year	(195.1)	(340.6)
	(390.0)	(169.4)
Actuarial loss recognised on pension schemes	(45.8)	(34.6)
Current tax relating to the actuarial loss on the pension schemes	5.2	6.3
Movement on deferred tax relating to the actuarial loss on the pension schemes	5.8	2.7
Impact of change in tax rate on deferred tax on pension schemes	(0.2)	0.1
At 31 March	(425.0)	(194.9)

8 Current cost reserve

	2013 £m	2012 £m
At beginning of the year	26,409.2	25,393.3
RPI adjustments		
- Fixed assets	1,274.9	1,059.9
- Working capital	1.3	2.8
- Financing	(14.1)	(14.1)
- Grants and third-party contributions	(297.3)	(32.7)
At 31 March	27,374.0	26,409.2

Supplementary regulatory information

BUSINESS REVIEW

1 Regulatory capital value (RCV)

	2013 £m
RCV at 31 March 2012 as published in RD06/09	6,266.1
Indexation	205.6
RCV at 31 March 2012 in March 2013 prices	6,471.7
Capital expenditure (excluding IRE)	481.8
Infrastructure renewals expenditure (IRE)	94.4
Infrastructure renewals charge	(82.4)
Grants and contributions	(42.0)
Depreciation	(264.6)
Outperformance of regulatory assumptions (five years in arrears)	(5.9)
Closing RCV	6,653.0
Average RCV	6,456.2

The table shows the RCV used in setting the price limits for 2012/13. 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.

GOVERNANCE

2 Non-financial information

for the year ended 31 March

	2013		2012	
	Water	Sewerage	Water	Sewerage
Number of properties (000s)				
Households billed	1,904.6	2,469.3	1,888.9	2,450.6
Non-households billed	110.4	110.3	111.1	110.5
Households void	68.2	82.4	67.1	82.2
Non-household voids	14.5	14.6	14.4	14.8
Properties served by new appointee in supply area as at 1 April 2009	0.8	0.7	0.5	0.3
Per capita consumption (excluding supply pipe leakage) (litres per household per day)				
Unmeasured household	155.2	n/a	163.3	n/a
Measured household	126.6	n/a	134.3	n/a
Volume (mega litres per day)				
Bulk supply export	35.0	1.6	33.4	1.5
Bulk supply import	2.8	7.8	3.2	7.7
Distribution input	1,082.8	n/a	1,150.0	n/a

STATUTORY ACCOUNTS

REGULATORY ACCOUNTS

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 2013 on pages 174 to 199 ('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 for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, 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 WSRA, 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 173, 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 & Ireland).

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 179 to 180 and 189 to 190 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2013 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

Independent auditors' report continued

BUSINESS REVIEW

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology)

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 174 to 176 have been drawn up in accordance with Regulatory Accounting Guideline 307 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 177

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 2013 on which we reported on 31 May 2013, 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
31 May 2013

- 1 The maintenance and integrity of the Company's website is the responsibility of the Directors and the maintenance and integrity of the Regulator's website 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 websites
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions

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 estimations of their capital investment requirements at Price Reviews.

Final Determination (FD) - 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).

Glossary of regulatory terms continued

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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