

# Anglian Water Services Limited

(Registered number 02366656)

## Annual report and financial statements

For the year ended 31 March 2014

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COMPANIES HOUSE

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## STATUTORY ACCOUNTS

## REGULATORY ACCOUNTS

Thousands of customers have helped us to shape our future by telling us how they want to see the business run over the next five years. We have embraced **innovation, collaboration and transformation** to help re-define how a 21st century water company should operate.

## INNOVATION

We set ourselves, as well as partners and suppliers, tough goals to force step changes. Being open to new ideas and innovative thinking.

## COLLABORATION

Taking engagement with customers to a new level, and working with partners to inspire them towards achieving their vision for a sustainable future.

## TRANSFORMATION

Transforming the way we work with partners. Driving a new commercial focus to deliver leading standards of customer service.

more

- P37** In-house displays
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# PERFORMANCE HIGHLIGHTS 2013/14

## YOUR SERVICE

FAIR CHARGES FOR  
OUR CUSTOMERS

**£10m**  
REDUCTION

ABATED "K"<sup>1</sup>  
FOR 2014/15  
TO KEEP  
BILLS DOWN

## OUR WORLD

VALUE DELIVERED TO  
OUR COMMUNITY

**2 million**

PEOPLE TOOK  
ADVANTAGE OF  
OUR WATER PARKS

## GETTING IT RIGHT FOR YOU

INVESTING TO BENEFIT  
CUSTOMERS

**£427m**

INVESTED TO  
ENABLE GROWTH  
AND IMPROVE  
INFRASTRUCTURE

SECOND LOWEST  
LEAKAGE ON RECORD

**9%**  
BETTER

THAN OFWAT'S  
TARGET LEVEL

REDUCTION IN  
CARBON EMISSIONS

**41%**  
REDUCTION

EMBODIED  
CARBON IN  
NEW ASSETS

STRONG FINANCIAL  
PERFORMANCE

**+8.0%**

OPERATING  
PROFIT

WATER QUALITY  
COMPLIANCE LEVELS

**99.96%**

MAINTAINED  
HIGH LEVEL OF  
COMPLIANCE

TOTAL POLLUTION  
EVENTS

**12%**  
REDUCTION

IN INCIDENTS  
COMPARED  
TO 2012

OPERATING COST  
EFFICIENCIES

**£50m**

UNFUNDED  
COSTS ABSORBED  
DURING THE AMP<sup>2</sup>

<sup>1</sup> Committed not to raise bills by the amount we are entitled to.

<sup>2</sup> Asset Management Plan. This is agreed with Ofwat on a five-yearly basis for the management of water and water recycling assets. AMP5 is the current plan and covers April 2010 to March 2015.

# BUSINESS OVERVIEW

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

## WHERE WE OPERATE

**Our services are at the heart of every single family and community in our region.**

We supply safe drinking water to 4.5 million customers in towns and villages from Grimsby in the north east of our region to Milton Keynes at its southwestern tip.

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

## OWNERSHIP

**Anglian Water Group (AWG) is owned by a consortium of investors.**

When AWG was acquired by the investors in 2006, Anglian Water Group Ltd became the ultimate parent company of the group. It is a Jersey registered company but is UK tax resident.

more [P28 Company structure](#)

## REGULATORS

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

more [P4 Regulators](#)

MORE THAN  
**6 million**  
CUSTOMERS



## KEY FACTS

**4,173**

**28,471**  
square km

**114,263**

NUMBER OF  
EMPLOYEES

KILOMETRES  
OF WATER AND  
SEWER PIPES

TOTAL AREA  
SERVED

**140**

**£167m**

**1,123**

**£115m**

NUMBER OF  
WATER  
RECYCLING  
CENTRES

CONTRIBUTION  
TO REGIONAL  
ECONOMY IN  
DIRECT  
EMPLOYEE  
SALARIES

NUMBER OF  
WATER  
TREATMENT  
WORKS

TAX  
CONTRIBUTION  
IN 2013/14

## LOVE EVERY DROP

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

Find out more about how we are going to achieve them.

more [P14 Our strategy](#)

# MATERIAL ISSUES AFFECTING THE BUSINESS

This year's report focuses on the issues that matter most to our stakeholders, to our owners, customers and regulators. These are the key issues that affect our business and its ability to create value, be it financial, social or environmental. We have summarised them on the next two pages.

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

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

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

## REGULATORS

We've taken the views of these regulators into account to define what matters to our stakeholders.

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

- **Economic Development**
- **Environment and Climate Change**
- **Customers and Communities**
- **Hartlepool**

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

Through our customer and stakeholder engagement activities we have identified a number of key issues that we believe are the most material to the business. These issues supplement the risks that we have identified internally and monitor through our risk register (see risk management section, page 18).

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

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## PROVIDING SAFE, CLEAN AND RELIABLE WATER

more **P38**

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

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

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## BILLS, AFFORDABILITY AND PROFITS

more **P36**

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

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

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

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## LEAKAGE

more **P49**

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

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

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

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## RESILIENCE AND FUTURE CHALLENGES

more **P41**

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

Our long-term goal is to ensure all customers can be supplied by more than one water treatment works. We plan to phase the spending on this to manage the impact on bills and in the next five years we'll work

to protect even more customers' supplies. We'll continue to monitor and prepare for the impacts of extreme natural and man-made hazards such as flood, drought, fire or power disruptions to minimise the risk of them leading to problems for our customers. We'll invest in new pipes, onsite generators, security monitoring and flood protection for our key sites.

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## PROTECTING THE ENVIRONMENT

more **P43 and P50**

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

Our Keep it Clear campaign has seen sewer blockages, which can cause pollution incidents, fall by an average of 48 per cent in the areas targeted. This reduction is largely thanks to customers who are now recycling

fats, oils and grease and disposing of unflushable items, such as wipes and sanitary waste, in the bin rather than down the toilet. This simple behaviour change has led to a reduction in repeat call-outs to unblock sewer pipes.

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

# CHAIRMAN'S WELCOME

This has been a year of challenge and change for Anglian Water, set against a backdrop of continuing economic uncertainty and a strong public focus on quality of customer service, value for money and affordable bills.

At the same time, the day-to-day operation of the business has been tested by more frequent extremes of weather; and legislative and regulatory change, together with business planning for 2015-20, has tested the resilience of the Company's long-term strategic plan.

The business has successfully risen to these challenges as the detail contained in this Annual Report will demonstrate.

Throughout the year, the Company has sought to retain the confidence of customers, investors, government and regulators, and has played an active role in contributing ideas, expertise and experience to the important discussions on the future of the water industry and the regulatory framework in which it operates.

The Company's Love Every Drop strategy continues to drive performance against stretching business goals, and has been at the heart of the biggest-ever consultation with customers. This has shaped the business plan that has been submitted to Ofwat for the next five-year regulatory period, and underpins future investment priorities. This approach has allowed the Company to deliver industry-leading customer satisfaction scores and the industry's lowest leakage levels, while investing £427 million to underpin growth and a pledge to keep average bills well below inflation for the next six years.

The Company has also delivered on its promise to secure the long-term financial future of the business, as well as demonstrate visible leadership in the management of resources and business relationships. The delivery of an exceptional public water service depends on it.

Thanks to the leadership of Peter Simpson and his team, the strong financial results and operating performance achieved demonstrates the strength and capability of the Company and gives every reason to be confident about the future.

**Sir Adrian Montague CBE, Chairman**

# CHIEF EXECUTIVE'S STATEMENT

This has been a defining year, for the water industry and for Anglian Water.

Against this backdrop, in this integrated Annual Report, we highlight the exceptional levels of performance we have achieved in a number of areas, most notably in leakage reduction and customer satisfaction.

Throughout, we've faced some tough challenges in working to balance the priorities of the day-to-day operation, often against the contrasting challenges of a hot, dry summer, and a wet, stormy winter; in shaping our Business Plan for AMP6; in influencing and shaping the most substantial reform of the industry since privatisation; and in planning the long-term security of our business.

We have continued to lead in promoting higher standards in the management of water quality. The past year has seen 25 of our scientists become Chartered against a new award specific to the Water Industry and established by ourselves, the Institute of Water and the Science Council. We are also pleased with the progress made through our targeted customer campaign, Keep Water Healthy, to address the 'next front' in improving drinking water quality.

We have also continued to see a fall in the number of pollution incidents. Nevertheless, we recognise the need to maintain our focus on reducing the number of more serious events where there is no single root cause but rather a mixture, including the weather.

During the year, on operational as well as longer-term strategic issues, we have kept our customers very close. Our biggest ever customer consultation shaped the thinking and priorities that are at the heart of our Business Plan for 2015-20 (AMP6). We tackled cost of living challenges head-on, by promising to keep average bills well below inflation for the six years

**99.96%**

**DRINKING WATER QUALITY**  
(2013: 99.96%)

**442,470**

**CO<sub>2</sub> EMISSIONS EQUIVALENT IN TONNES CO<sub>2</sub>E**  
(2013: 469,551)

**0.21**

**ACCIDENT FREQUENCY RATE** ACCIDENTS PER 100,000 HOURS WORKED  
(2013: 0.16)

**5.06**

**LEAKAGE CUBIC METRES OF WATER LOST PER KILOMETRE OF MAIN PER DAY**  
(2013: 4.97)

## CHIEF EXECUTIVE'S STATEMENT

to 2020; we promised £60 million to continue our war on leaks, even though we already outperform the industry; and we committed to invest over £5 billion to maintain and improve essential services, securing long-term water supplies in our fast-growing region that remains very vulnerable to the impacts of climate change.

Being the industry leader for customer satisfaction in 2013/14, together with very clear evidence of our record and performance overall, underpins the credibility of our Business Plan. Our customers agreed that it is a good plan. More than 90 per cent of those we asked agreed our draft plan was the right one for the future we face.

Ofwat was unable to 'fast track' our Business Plan as it needed more information and evidence for the increased investment included within our plan. This investment was supported by our customers and included improving the resilience of our water supply system and reducing leakage. These are two key areas in responding to the regional challenges of housing growth and climate change.

While the process is still not complete, we look forward to continuing to work with Ofwat to achieve a satisfactory outcome for our business and our customers by the end of 2014.

Market reform is at the heart of the Water Act, marking the biggest change in the industry since privatisation. Competition in the non-domestic household market will soon be a reality, and we relish the opportunity to exploit our considerable experience of this market in Scotland, to become an important player from 2017 in England too. We have helped to shape and influence the structure of this new competitive market, with ministers, senior officials, water industry colleagues and regulators, and welcome this legislation and all the opportunities it brings.

Looking to the future, we want to be more innovative in the way we approach business challenges, adopting more dynamic solutions where we can. This is all part of the challenge captured in our 'Love Every Drop' strategy. This drives new ways of working, challenging more traditional approaches.

Which is why we have been enthusiastic about working with Ofwat to develop its approach to outcomes-based regulation. Our own work with a wide range of customers, community representatives, business leaders and others has led us to develop and agree 10 outcomes that we want to achieve for our customers, the environment, local communities and the economy.

**"Competition in the non-domestic household market will soon be a reality, and we relish the opportunity to exploit our considerable experience of this market..."**

The continuing success during the year of our campaigns such as Keep it Clear and Drop 20 has convinced us of the benefits of this outcomes-based approach. This is also why outcomes are a central feature of our 2015-20 Business Plan – a plan that has been emphatically endorsed by customers.

We believe these outcomes provide a clear and compelling vision for the long-term future, too, and we know that success in delivering them will depend on winning even broader and deeper collaborations with customers, businesses and communities. There is enormous potential to achieve even more. So during both this year and the years ahead we have and will remain focused on three key areas:

**Innovation** – setting ourselves, as well as our partners and suppliers, tough goals to force step changes. Being open to new ideas and innovative thinking, adapting to new ways of working and operating more sustainably.

**Collaboration** – taking our engagement with customers to a new level, and working with national business leaders, senior academics, partners from across the public and private sectors, young people and community leaders, to inspire them to take positive steps towards helping achieve our vision for a sustainable future.

**Transformation** – transforming the way we work with our partners and suppliers, with a strong focus on outcomes. Driving a new commercial focus to deliver leading standards of customer service, together with cutting-edge social marketing initiatives to lead the way in reshaping how society values and uses water.

I believe it is testament to the underlying strength of our business that during this year of challenge and uncertainty we have successfully delivered industry-leading customer service; we have the financial security that allows us to promise to keep average bills well below inflation for six years; we have submitted an innovative, outcomes-based Business Plan that has been endorsed by over 90 per cent of surveyed customers; we have planned to be one of the biggest private investors in infrastructure across the east of England; and we have built strong foundations on which the long-term future of the business will be secured.

I remain very proud to be leading the company at such an important time for our business, and to be part of the team that has delivered such consistent, excellent performance.

**Peter Simpson**, Chief Executive

“I believe it is testament to the underlying strength of our business that during this year of challenge and uncertainty we have successfully delivered industry-leading customer service.”

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Our ‘contract with customers’ was printed in regional newspapers to highlight the commitments in our Business Plan.

# BUSINESS MODEL

## PUTTING WATER AT THE HEART OF A WHOLE NEW WAY OF LIVING

Our sustainable business model is structured to create long-term value for our customers and the environment.

### OUR KEY RESOURCES

PEOPLE  
 • EMPLOYEES  
 • SUPPLIERS  
 • THE ALLIANCE<sup>1</sup>

FINANCES

RAW WATER

USED WATER

OUR LAND

### HOW WE ADD VALUE

OUR LOVE EVERY DROP CULTURE

COLLABORATIONS

INNOVATION AND THOUGHT LEADERSHIP

STRATEGIC FUTURE PLANNING  
 • SCENARIO PLANNING  
 • CLIMATE AND GROWTH PROJECTIONS  
 • CUSTOMER INSIGHT

BUILDING AND MANAGING ASSETS

### EXTERNAL PRESSURES

GROWTH

**22%**

CLIMATE CHANGE

**154 MI/d**

POTENTIAL REDUCTION IN WATER AVAILABLE TO US BY **2040**

MORE PROPERTIES SUPPLIED SINCE **1993/94**

<sup>1</sup> The @one Alliance is a collaboration between leading design and construction companies that delivers infrastructure and building projects for Anglian Water Services Limited.



## OUTPUTS

DRINKING WATER

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WATER FOR INDUSTRY

---

RECYCLED WATER FOR THE ENVIRONMENT

---

BIOSOLIDS FOR AGRICULTURE

---

ENERGY

---

SKILLS, JOBS AND GROWTH

## ADDED VALUE OUTCOMES



## OUR CONTRIBUTION TO SOCIETY

FLOURISHING ENVIRONMENT

**99.9%**

SSSIs IN FAVOURABLE/RECOVERING CONDITION

FAIR CHARGES

**78%**

PAYING BY A METER

INVESTING FOR TOMORROW

**20**

WATER SITES BEING PROTECTED FROM FLOODING

CARING FOR COMMUNITIES

**240,000+**

PEOPLE SEEN BY OUR EDUCATION PROGRAMME IN SIX YEARS

## BUSINESS MODEL

### Our business is the water cycle

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

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

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

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

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# 95%

OF HOMES WILL  
HAVE A **METER**  
**FITTED BY 2020**

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### Managing resources wisely

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

This has been achieved by:

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

In the next five years we will continue to build on this industry-leading position by:

- Increasing the number of households with a meter fitted to 95 per cent, and the number of customers paying a measured charge to 88 per cent by 2020
- Working to drive down leakage to 172 MI/d by 2020 in response to our customers' concerns
- Extending our water efficiency campaigns.

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

## **Adding value and managing external pressures**

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

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

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

## **Supporting growth in the region and protecting the environment**

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

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

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

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

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

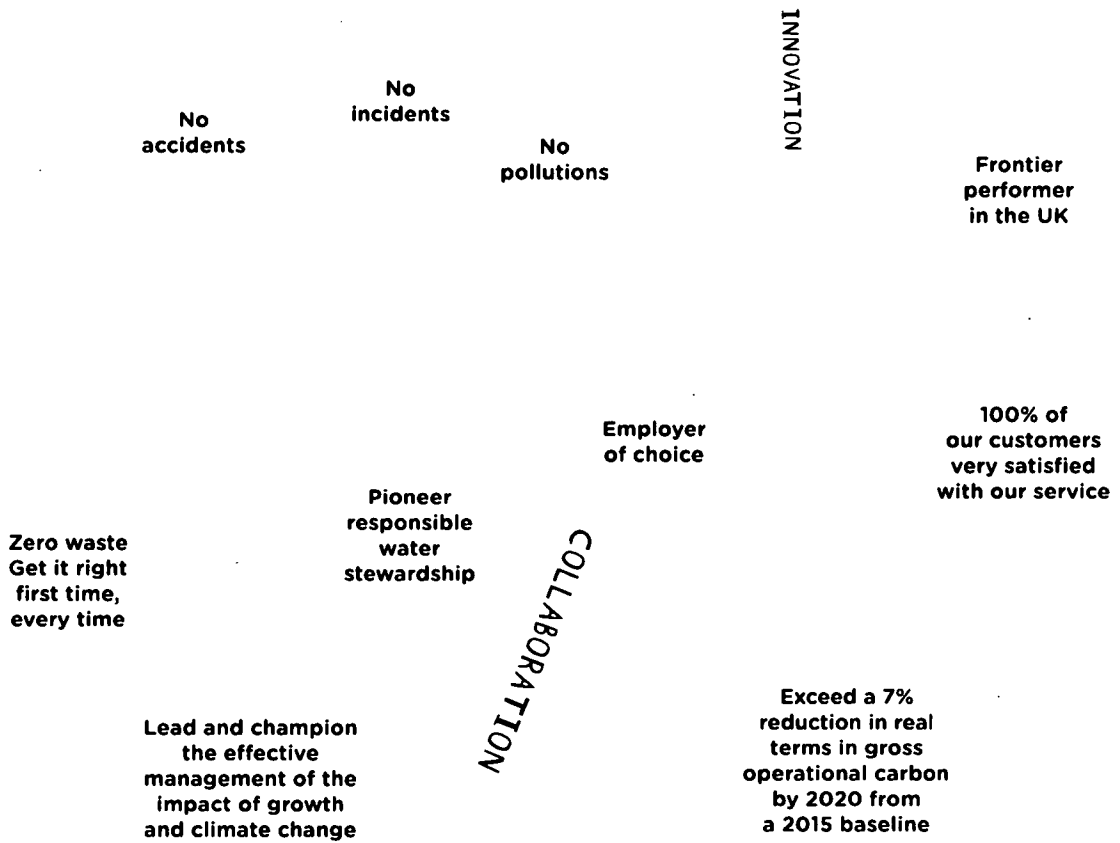
Catchment management solutions to deal with high nitrate levels are very expensive and, as it can take more than 40 years for nitrate to work its way through groundwater systems, are ineffective in the short to medium term.

We are proposing to study a small number of catchments that feed major reservoirs and rivers used for public water supply. This will focus on achieving the right approach for the large arable catchments common in East Anglia. It will also test the appetite of customers for various options available to change behaviours.

# OUR STRATEGY

We have put together a strategy and a business plan that demonstrate how we will continue to drive performance in the business and make sure we exceed customer expectations by focusing on the 10 outcomes we have created together.

To pass these markers and achieve our outcomes, we recognise the need to develop our culture of **innovation** and **collaboration**. This is what will power us towards real **transformation**; with our employees, suppliers and partners.



To ensure we stay on course to reach our outcomes we have revised and reset our ambitious **Love Every Drop** business goals. They are the markers that guide us through our sustainability journey.

**Deliver a 70% reduction in capital (embodied) carbon by 2030 from a 2010 baseline**

**Make a positive difference to the communities we serve**

These **10 outcomes** have been agreed with our customers and the communities we serve. This is the joint future that our long-term strategy aims to bring about.

more **P32** Delivering our strategic priorities -----



## OUR STRATEGY

Our ambition is to be one of the UK's leading customer service businesses.

This can only be achieved by keeping the trust and confidence of our customers. Our Discover, Discuss, Decide customer consultation was vital in putting together a plan that will meet those aims for the next five years and beyond.

### 2015-2020 Business Plan

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

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

- **Continue our high levels of service and enhance them in the areas highlighted through our consultation**
- **Keep increases in average bills well below inflation between 2015-2020**
- **Deliver frontier efficiencies and reduce wholesale costs.**

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

### Long-term sustainability is our business strategy

We want to put water at the heart of a whole new way of living.

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

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

### Stretching our aspirations

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

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**The feedback to our Discover, Discuss, Decide customer consultation helped to shape our Business Plan for 2015-20.**

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

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

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

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

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

- **Frontier performer in the UK**

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

- **Employer of choice**

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

## **New goals**

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

- **Pioneer responsible water stewardship**

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

- **Make a positive difference to the communities we serve**

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

## **Our culture**

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

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

## **INNOVATION**

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

## **COLLABORATION**

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

## **TRANSFORMATION**

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

# RISK MANAGEMENT OVERVIEW

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

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

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

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

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

---

## CLIMATE CHANGE AND FLOODING

### Description

Climate change is a major challenge to our business that can impact our assets and service to our customers. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, and our low-lying region makes us particularly vulnerable to localised flooding. In the last year we saw a hot July place extra demand on our water resources, the biggest east coast tidal surge for 50 years and the wettest winter since records began. Although specific events cannot be attributed to climate change, they clearly demonstrate how vital it is that we manage severe weather, both today and in the future.

### Mitigation

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

### OUTCOMES AFFECTED BY THIS RISK:

A SMALLER  
FOOTPRINT  
RESILIENT  
SERVICES



---

## FINANCING OUR BUSINESS

### Description

We are funding a capital programme of more than £2 billion<sup>1</sup> in AMP5 and have a gross debt of £6.2 billion to manage and service. It is critical that we have robust financing arrangements in place.

<sup>1</sup> 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 79.6 per cent of our regulatory capital value as at 31 March 2014. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average, producing lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available cash facilities and having a diverse debt portfolio in terms of source and maturity.

OUTCOMES AFFECTED BY THIS RISK:

FAIR PROFITS

---

## REGIONAL GROWTH

### Description

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

### Mitigation

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

OUTCOMES AFFECTED BY THIS RISK:

SUPPLY MEETS DEMAND

INVESTING FOR TOMORROW

CARING FOR COMMUNITIES

---

## RISK MANAGEMENT OVERVIEW

### WATER SECTOR REFORM AND OTHER LEGISLATION

#### Description

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

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

#### Mitigation

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

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

#### OUTCOMES AFFECTED BY THIS RISK:

ALL AREAS OF OUR BUSINESS HAVE THE POTENTIAL TO BE AFFECTED BY THIS CHANGE

### BAD DEBT

#### Description

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

#### OUTCOMES AFFECTED BY THIS RISK:

FAIR CHARGES

---

## ENERGY AND CARBON MANAGEMENT

### Description

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

### Mitigation

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

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

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

OUTCOMES AFFECTED BY THIS RISK:

A SMALLER FOOTPRINT

---

## EFFICIENCY DELIVERY

### Description

The delivery of efficiencies in our operations is vital to our success - keeping our costs under control helps to minimise our customers' bills and is an important measure of our performance within the regulatory structure. We have delivered significant cost efficiencies across our capital and operating cost base in the first four years of AMP5, and will continue to drive out costs for the remainder of the AMP and beyond.

### Mitigation

Examples of efficiency projects we have implemented during the first four years of AMP5 include the following:

- Changing working practices in our front-line workforce
- Setting up a major efficiency programme across our back-office teams
- Introducing changes to pension arrangements
- Pursuing energy efficiency
- Refining our procurement and sourcing strategy
- Encouraging business units to implement smaller, locally driven initiatives

- Carrying out rigorous root cause analysis early on in our capital delivery process to ensure we provide the right whole-life cost solutions
- Focusing on both cost and carbon, and the relationship between them, to find innovative ways of providing sustainable solutions
- Developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site
- Improve the operability of what we deliver by having clear and agreed deliverables.

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

OUTCOMES AFFECTED BY THIS RISK:

FAIR PROFITS  
INVESTING FOR TOMORROW  
SATISFIED CUSTOMERS

## RISK MANAGEMENT OVERVIEW

### POLLUTIONS

#### Description

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

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

#### Mitigation

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

This includes:

- Spending of around £7 million per annum in planned preventative maintenance to reduce blockages and consequent pollutions
- A priority, 'blue light' response for areas with historic pollution risk and/or significant environmental sensitivity

- Investment in new technology for remote monitoring of discharges. These have been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock
- We continue to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop-shop for pollution information
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance
- Blockages are responsible for the majority of pollutions. A FOG and unflushables campaign aimed at changing customer behaviours continues to drive down blockages, resulting in an average of 48 per cent fewer blockages in the areas targeted so far
- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

OUTCOMES AFFECTED BY THIS RISK:

FLOURISHING ENVIRONMENT

INVESTING FOR TOMORROW

SATISFIED CUSTOMERS

### Human rights

The Companies Act 2006 requires us, to the extent necessary for an understanding of the development, performance or position of the company's business, to include information about human rights issues. Given the nature of our business and area of operations, we do not believe it is necessary to include such information.

However, the safety and wellbeing of our employees and contractors is something we take very seriously. You can read about how we are performing in these areas on pages 62-63.

# OPERATING ENVIRONMENT

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



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

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

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

## OPERATING ENVIRONMENT

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

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

The Water Act extends competition in the non-household retail market. From 1 April 2017, all non-household customers will be able to choose their water and/or water recycling retailer. The Act also makes provisions to allow for further upstream reforms. In order to deliver an effective market, Defra and Ofwat have created the Open Water Programme. By bringing together experienced water industry representatives and through a number of consultations the programme aims to create the necessary

industry systems and codes required for a fully functioning competitive market. Anglian Water is actively engaged and represented on a number of working groups, including the High Level Group which is providing the direction for the Programme. Leading up to market opening in 2017, there will be a lot of activity within Anglian Water and we have established a Market Reform Programme to effectively manage this transition.

### Our draft plan

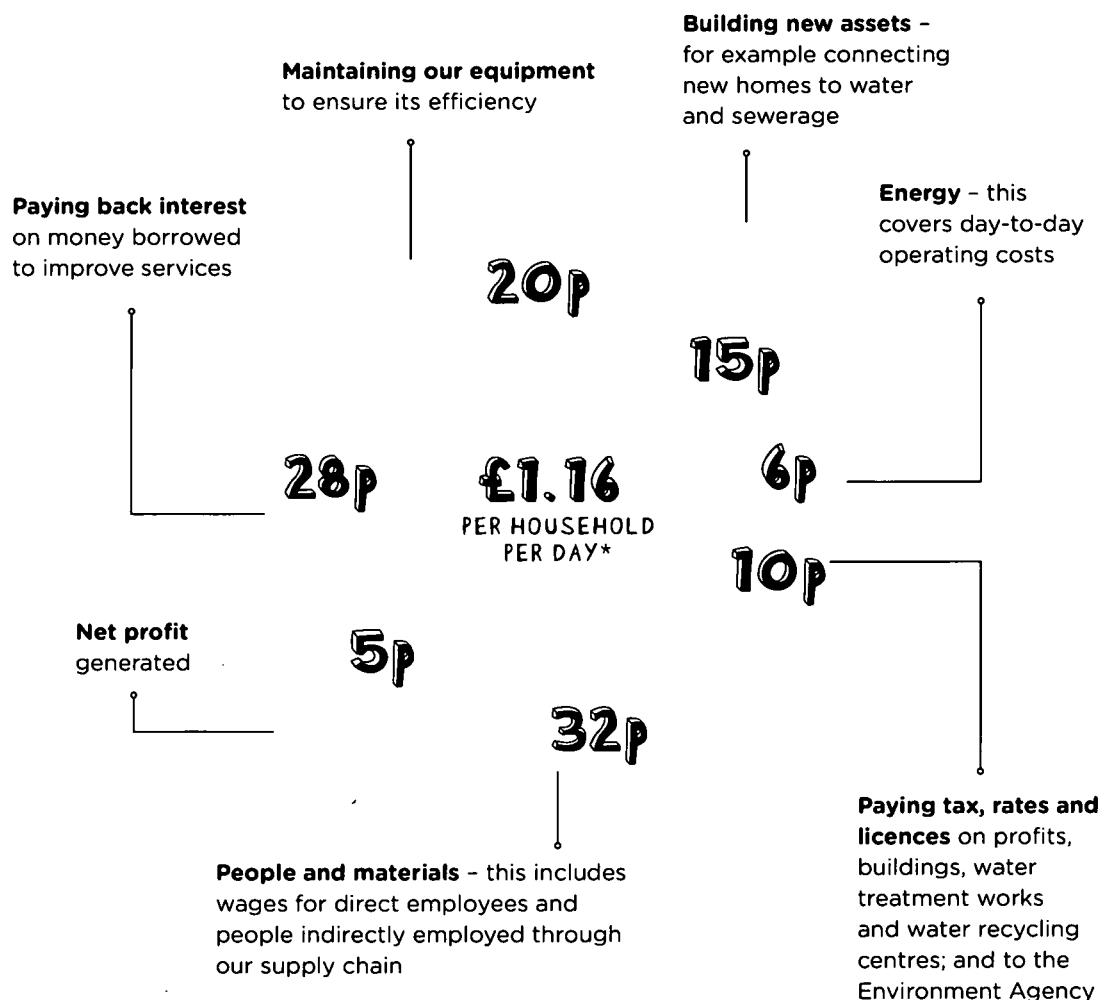
In our draft plan for 2015-20 we proposed to keep average bills flat before inflation, while investing to maintain and improve services, meeting our legal obligations and tackling future challenges. We tested the acceptability of our draft plan with our customers and over 90 per cent of those surveyed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

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?



\*Based on an average annual bill of £423. This diagram is for illustrative purposes, based on figures derived from our Final Determination for AMP5.

# LEADERSHIP AND GOVERNANCE

## HOW WE ARE MANAGED

### Sir Adrian Montague

Chairman of the Board

Appointed Chairman of Anglian Water Group (AWG) in March 2009 and Chairman of Anglian Water Services (AWS) in January 2010. Chairman of **N** and **R** until 1 April 2014.

### Peter Simpson

Managing Director AWS and Chief Executive Officer AWG

Appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013.

### Robert Napier, CBE

Senior Independent Non-Executive Director

Appointed in February 2002  
Chairman of **A**, **N** and **R**

### Scott Longhurst

Managing Director, Finance and Non-Regulated Business

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.

### Christopher Garnett, OBE

Appointed in December 2006  
**A** **N** **R**

### John Watkinson

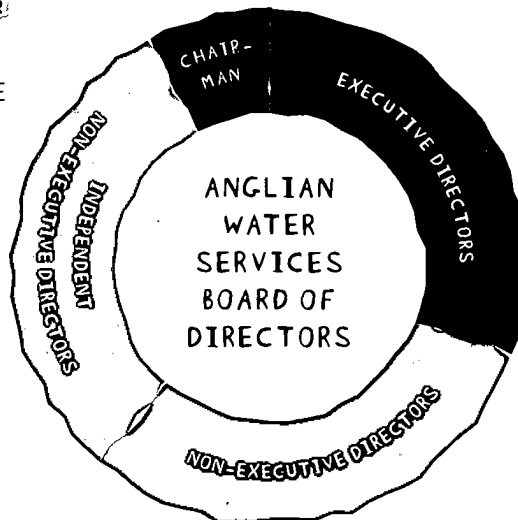
Appointed in May 2005  
**A** **N** **R**

### Paul Whittaker

Appointed in October 2013  
**N** **R**

### Andrew Cox

Appointed in April 2014  
**N** **R**



### Jean Spencer

Director of Regulation

Appointed in May 2004

### Chris Newsome

Director of Asset Management

Appointed in September 2004

### Niall Mills

Appointed in April 2014  
**N** **R**

### Andreas Köttering

Appointed in April 2014  
**N** **R**

### Christian Seymour

Appointed in April 2014  
**N** **R**

#### KEY

**A** Audit Committee

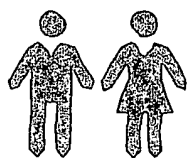
**N** Nomination Committee

**R** Remuneration Committee

more **P85**  
Detailed biographies



We continue to make sure that our governance structures support effective decision-making and robust controls.



**78% 22%**

**GENDER  
DIVERSITY  
AT SENIOR  
MANAGEMENT  
LEVEL**

### **Gender diversity**

Despite being a highly engineering biased organisation, women are represented at all levels of the Company, accounting for 34 per cent of our technical experts and 22 per cent of our senior managers. Women make up 35 per cent of our people managers and in recent recruitment 56 per cent of our graduate population is female. Overall, 29 per cent of our employees are female and 71 per cent are male. The Company is committed to equality, is currently reviewing its diversity and equality policies and is finalising a diversity plan for implementation during 2014/15.

### **ANGLIAN WATER SERVICES MANAGEMENT BOARD**

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

**Peter Simpson** Managing Director

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

**Chris Boucher** Director of Information  
Services

**Richard Boucher** Business Change and  
Strategy Director

**Paul Gibbs** Director of Water  
Recycling 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

## LEADERSHIP AND GOVERNANCE

### 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 and Group Chief Executive Officer; the Managing Director, Finance and 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\$219.1 billion CPP Fund to maximise returns without undue risk of loss.

IFM Investors is a global asset manager owned by 30 Australian pension funds, specialising in infrastructure, private equity, debt investment and listed equity.

3i is an international investor focusing on private equity, infrastructure and debt management.

#### % OWNERSHIP

32.3%

15.0%

32.9% 19.8%

#### ORIGIN

AUSTRALIA

CANADA

AUSTRALIA

UK

#### ASSETS<sup>1</sup>

A\$169.3  
BILLION

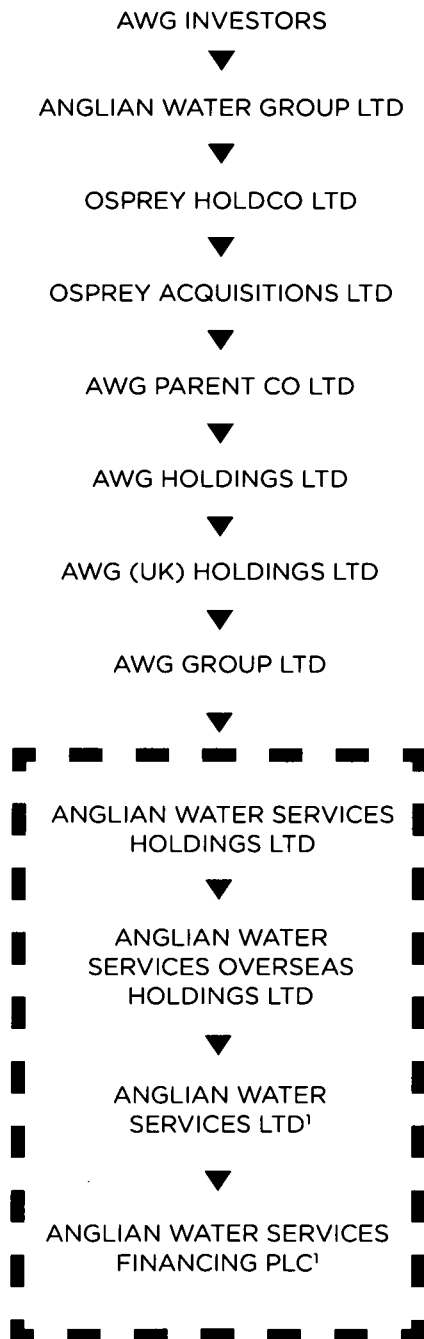
C\$219.1  
BILLION

A\$52.0  
BILLION

£12.9  
BILLION

<sup>1</sup> Assets under management as at 31 March 2014.

▼ Direct subsidiary



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

## Our corporate structure

AWG is owned by a consortium of investors, as outlined on page 28. 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 UK tax resident and, as such, is liable for tax in the UK. Osprey Holdco Ltd has issued debt which 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.

AWG Parent Co Ltd, AWG Holdings Ltd, AWG (UK) Holdings Ltd and AWG Group Ltd are holding companies that were set up when AWG was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. Three of the companies are UK registered and tax resident. AWG Holdings Ltd is Jersey registered and Irish tax resident.

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 ring fence. This makes us an attractive investment prospect for bond holders, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills.

Anglian Water Services Overseas Holdings 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 a Cayman Islands registered company to facilitate the ring-fenced structure in 2002, but changes to UK legislation over the last few years mean we wouldn't need to set up an overseas company if we were to do the same again. Despite being registered overseas, this company is UK tax resident, and therefore does not (and never has) benefited from any tax advantage.

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

# KEY PERFORMANCE INDICATORS (KPIs)

## OPERATIONAL

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

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

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

Cubic metres of water lost per kilometre of main per day.

### Service Incentive Mechanism (SIM)

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

## ENVIRONMENTAL

### Carbon footprint

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

## HOW THIS KPI RELATES TO OUR STRATEGY

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

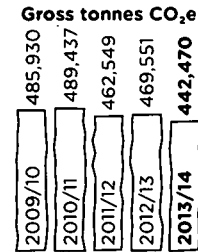
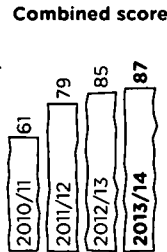
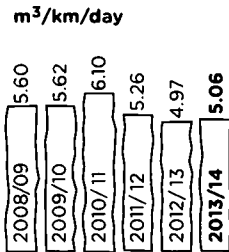
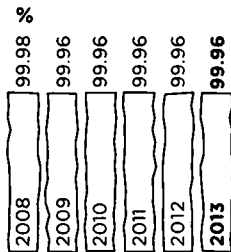
Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.

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

This key measure helps us:

- Manage our environmental impact
- Deliver cost savings.

## OUR PERFORMANCE



## OUR 2013/14 PERFORMANCE IN CONTEXT

Our drinking water quality continues to be excellent. In 2013 we launched a new Keep Water Healthy campaign.

more **P39**

Read more about this new initiative

Download our Drinking Water Quality Report at

[www.anglianwater.co.uk/dwq](http://www.anglianwater.co.uk/dwq)

Industry average 2012/13:

**8.66m<sup>3</sup>/km/day**

Leakage at its second lowest ever level, with performance 9 per cent better than our Ofwat target. This reflects our continued commitment to securing supplies to our customers and protecting the environment.

more **P49**

Our combined score is out of a possible 100. This has improved by 26 points from 2010/11. For the second year in a row we have been rated the best in the industry for customer service.

more **P33**

Read more about meeting the needs of our customers

We aim to reduce our gross operational carbon emissions by 10 per cent in real terms by 2015 from a 2010 baseline. Our gross operational carbon emissions have decreased by 9 per cent in 2013/14 in comparison to the 2009/10 baseline.

\* Note, the baseline has been recalculated in accordance with updated government guidance released in 2013.

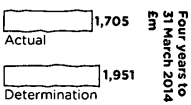
more **P54**

FINANCIAL

EMPLOYEES

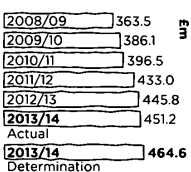
**Capital expenditure Em<sup>3</sup>**

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



**Operating expenditure Em<sup>4</sup>**

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



**HOW THIS KPI RELATES TO OUR STRATEGY**

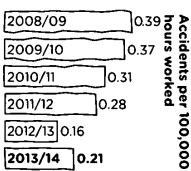
Total investment delivered so far in this five-year asset management period.

The cost of running Anglian Water operations and achieving our objectives.

**OUR PERFORMANCE**

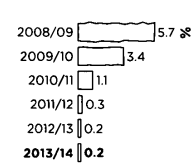
**Accident frequency rate**

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



**Accident Severity Rate**

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



Measures severity of accidents/incidents.

**OUR 2013/14 PERFORMANCE IN CONTEXT**

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
- Some growth expenditure being deferred until the final year of the AMP

Read more about finance **P74**

Below inflation increase of 1.2 per cent over 2012/13 due to targeted efficiencies, a rates rebate and one-off savings that partially offset inflationary pressures across the business. Despite the additional costs of the Carbon Reduction Commitment and private sewers transfer we have outperformed the Final Determination this year.

Although our AFR has risen slightly this year our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RSPA) for the 10th consecutive year. This year we were also awarded a Highly Commended placing our performance among the very best in the industry.

Read more **P62**

Health and safety continues to be a priority.

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.

**Footnotes**

- <sup>1</sup> Drinking water results published in 2013 for the calendar year, measured as annual compliance with the Drinking Water Regulations 2010.
- <sup>2</sup> Lost water from leaks in our network and our customers' own pipes. 2012/13 result subject to formal confirmation from Ofwat in autumn 2014.
- <sup>3</sup> Final Determination Capex on a gross, pre-capital income tax basis for the period 2013/14 prices.
- <sup>4</sup> For the period 2010/11 onwards, adjusted to 2013/14 prices and for non-appointed business and pension deficit payments to ensure consistency.

# DELIVERING OUR STRATEGIC PRIORITIES

Discover how we have performed against the 10 outcomes we want to achieve for our customers and the environment.

## OUTCOMES FOR CUSTOMERS AND THE ENVIRONMENT

This picture of our outcomes wheel is to help you see at a glance which outcomes we are reporting on as you read through the report. There are 10 outcomes, grouped under three broad headings: Your service, Our world and Getting it right for you.

more [P15 Our outcomes wheel](#)

### YOUR SERVICE

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# YOUR SERVICE

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

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

Our business supplies clean, safe water to millions of people. We are constantly working to keep the quality of that water world class

and to give excellent customer service. We also take and treat the water returned through our sewers, protecting the health of our customers and the environment. Keeping our huge network of sewers, pumps and Water Recycling Centres working well is also an essential part of the service we provide.

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

## YOUR SERVICE

### SATISFIED CUSTOMERS

**Our customers have rated our service as the best in the industry for the second year running, as measured by Ofwat's independent qualitative customer satisfaction survey. We have also secured top spot over the three-year period 2011-14, showing we are consistently delivering a great service for our customers.**

Our UK-based contact centres in Huntingdon, Lincoln and Hartlepool together with our back-office operations continue to focus on friendly and professional service. Response times are better aligned to customer expectations. Customer satisfaction levels with these areas remain high, with more than 98 per cent satisfied or better.

### KEY HIGHLIGHTS

Customer service rated best in the industry for the second year running.

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More than 93 per cent of customers satisfied with their service, according to Ofwat's SIM score.

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Complaints down more than 15 per cent on last year.

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## Measuring customer satisfaction

As part of Ofwat's Service Incentive Mechanism (SIM), 200 customers are contacted each quarter and asked about their experience of dealing with us.

More than 93 per cent of customers asked this year said they were satisfied with the service they received, with more than three quarters very satisfied.

Our own Voice of the Customer team has spoken to more than 40,000 customers this year, gaining valuable insight and measuring our customers' satisfaction. This information is vital in helping us to change and improve our service, with the scores delivered to the employee involved and linked to our business targets.

According to this survey, some 88 per cent of customers who called our billing contact centres told us that they were very satisfied, with less than 1 per cent expressing any dissatisfaction.

Across the business more than 97 per cent of customers, who spoke to our team, said they were satisfied or better with our service. This moves us ever closer to our ambitious goal of 100 per cent of our customers being very satisfied with our service.

**40,000**

PEOPLE SPOKEN  
TO BY OUR  
VOICE OF THE  
CUSTOMER TEAM

**97%**

**97% OF  
CUSTOMERS,  
WHO SPOKE TO  
OUR TEAM, WERE  
SATISFIED OR  
BETTER WITH  
OUR SERVICE**

## Institute of Customer Service

Customer expectations continue to rise and they measure us against their experience of companies across a range of industries and sectors. To ensure we are among the very best, we have become members of the Institute of Customer Service. This allows us to benchmark our own performance against other pioneering industries, learning and developing through their experiences.

## Fewer complaints

Another measure of our commitment to our customers is our complaint record. For the third year in a row we have seen a reduction in the number of complaints we've received, down more than 15 per cent on the 2012/13 year. Following further customer service training for employees we have also seen a big improvement in the number of complaints resolved first time. This rose to more than 98 per cent, up from 90 per cent in 2010/11.

## What's new this year?

We are always looking for ways to improve our service. Innovations this year include:

- Market research to better understand what our customers wanted from their bills. Bills have been redesigned with more changes planned over the next year to better match customer requirements
- A new call centre telephony platform with a virtual hold facility has been introduced. Customers can now choose not to wait if there is a queue and opt to receive a call back instead
- Following great feedback from our customers we are continuing to develop our 'proactive calling', letting customers know when we have service outages



- This year we have moved to same-day repairs for leaks and to same-day reinstatements wherever practical
- We're serious about service and have started our journey to gain accreditation by the Institute of Customer Service - ServiceMark.
- Our front-line employees are the face of Anglian Water, so we have ensured a revised package of customer service training is a fundamental part of what we teach to new starters
- Where customers opt to have a water meter fitted, we are now carrying out a free 20 minute water saving check at the same time. In future, we plan to leave customers with their own personalised water saving plan
- An online chat facility where customers can chat live to one of the team at certain times.

## Social media

Digital technology has transformed customer expectations. Our customers now demand faster, round-the-clock interaction.

Our customers now define how they want us to communicate with them, and social media gives them a more active role in the conversation. It is also a way to unlock customers' support for our work, and for customers to share their verdict on our service.

Our work on social media spans the entire business: Customer Services answers general queries; Corporate Affairs manages brand messaging and generates promotional content; HR uses LinkedIn as a recruitment platform and operations can be alerted to problems as they happen via Twitter.

Social media can turn a problem into a positive, as users frequently compliment the speed of our response and ability to resolve issues. Best of all, these compliments reach a wide audience with genuine, unsolicited endorsements of our work.

We monitor company mentions and - where appropriate - step in to offer help, even when it hasn't directly been asked for.

Our key campaigns have benefited from social media exposure in the last year, with Keep it Clear a good example. We believe we're one of the first water companies in the UK to use 'promoted tweets' featuring images, key statistics and facts about the campaign to reach 862,266 timelines, generating 681 retweets.

Our register of fans and followers has grown hugely over the year, and social media is now embedded in our emergency communications plans. We've produced videos to show what our employees do, as well as helping customers help themselves with a library of 'how-to' guides.

Social is fast becoming 'business as usual', but it remains an effective way to wow our customers. Messages letting people know about bursts, road closures, or disruption to supply are typically well received. What's more, customers can now help get the message out.

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**Social media is a good way to get added exposure for our key campaigns.**

## YOUR SERVICE

## FAIR CHARGES

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

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

### Affordability

What people consider an 'affordable bill' can vary widely, depending on incomes and other pressures. While most have no difficulty paying their Anglian Water bill, the issue still affects all our customers. This is because the cost of unpaid bills is ultimately reflected in the bills of those who do pay.

We have a comprehensive package of measures to help people manage their bills, including:

- Offering different tariffs to help customers on low incomes and working to make sure people are on the most appropriate tariff for them
- Providing metering and water efficiency advice to help customers reduce consumption and so cut their bill
- An industry-leading approach to the management and payment of bills, including a series of payment options
- An assistance fund to help customers who have historic debt get back on track. Our annual contribution to the fund is currently £750,000 and we will increase this by a third to £1 million from 1 April 2015.

Through the Government's Watersure scheme and our own Aquacare Plus tariff, we provide direct tariff support to 45,000 households.

### KEY HIGHLIGHTS

We will increase average customer bills by less than we are entitled to in 2014/15.

Consulting on a new social tariff to help those facing financial hardship.

Almost 78 per cent of customers now billed on a water meter.

### Tailoring tariffs to budgets

We offer two tariffs for metered homes where customers may experience particular hardship and need to use large amounts of water.

The **WaterSure** tariff has a higher annual standing charge than the standard option, but there is no charge for the volume of water used.

The **AquaCare Plus** tariff has a higher standing charge 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 2009/10 there were 12,000 customers registered. In 2011/12 it was 20,500 and last year 41,574. This year the figure has reached 45,000.

We have also developed proposals to introduce a new social tariff from 1 April 2015. Customers would be assessed by an independent advisory agency, with those needing extra help being offered a discounted tariff. We will shortly be completing a customer consultation process to confirm support for our proposals.

## **Metering**

Meters are the fairest way to charge for water because customers only pay for what they use. For this reason, having a meter also encourages water saving. On average, customers with a meter save £100 a year and use 10 to 15 per cent less water.

We have consistently looked to increase the number of customers who are metered, without making it compulsory. Customers have told us they do not want us to force people to switch to a meter.

More than 20,000 customers chose to have a meter fitted in the last year and we also fitted another 29,500 under our enhanced metering programme. This is where we install meters at customers' properties, provide advice on potential savings and leave it for them to decide whether to switch.

We replaced 120,000 meters this year to make sure customers continued to get fair and accurate bills.

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

### **In-house displays**

We have collaborated with Green Energy Options to design, produce and supply 11,300 in-house displays to customers with smart meters.

These show people how much water they are using and let them set a 'water budget'. We wanted to see if this would reduce people's consumption and save them money on water and electricity bills.

A survey of 450 customers found they used on average nine litres a day less per property – a reduction of four per cent.

While in-house displays are available to help people track electricity and gas use, this was an innovative development in the water industry. It won us the ENDS Green Economy Award for Water Efficiency, which is supported by the Department for Energy and Climate Change.

## **Helping customers to save water and money**

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

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

## **INNOVATION**

## YOUR SERVICE

## SAFE, CLEAN WATER

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

We have maintained the excellent quality of the water leaving our treatment works and travelling through our network to homes and businesses. We are also working hard to help customers maintain that high quality when water enters their own, private pipework.

Our Keep Water Healthy campaign has found new ways to talk to people in a friendly and informative way, while a partnership with the NHS helped us reach vulnerable customers with advice about recognising and reducing the risks from lead in drinking water.

### Our network

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

It was also the third year running without any drinking water quality incidents (events classified as 'serious' or 'major' by the DWI).

### KEY HIGHLIGHTS

Founder member of the national WaterSafe scheme for approved plumbers, which officially launched this year.

Third year with no drinking water quality incidents (events classified as 'serious' or 'major' by the DWI).

Launched the Keep Water Healthy campaign to improve public awareness of things that can affect drinking water quality.

Lead pipe replacement project on target.

Employed catchment officers to work with landowners and help to reduce pollution in raw water.

We are continually investing to maintain and improve water quality. This year saw work continue on a new, state-of-the-art water treatment works near Lincoln. During the next five years we will carry out work to prevent decline in water quality from nitrates, pesticides and nickel, continue with our strategy to reduce lead in drinking water and protect water quality in buildings.

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

## Keep Water Healthy

Our newest drinking water campaign – Keep Water Healthy – launched in 2013.

While the water we provide is treated, cleaned and disinfected to meet the highest standards, there are many potential issues in people's homes that can compromise the quality.

Keep Water Healthy looks to raise awareness of things customers may unwittingly do, which can make their water look or taste unusual, or even make it unsafe. The main aim is to prevent plumbing problems in the home that can cause water quality issues.

The main areas we focus on are:

- Tap hygiene
- Softeners
- TCP tastes and smells
- Lead
- Cloudy water
- Fuel spills
- Mould
- Plumbing problems

A new leaflet and web page have been produced, and there are six information videos on our website and YouTube. Anglian Water's Facebook page has also played a large part in getting the campaign messages to customers. The next step is to target small businesses like cafes, dentists, and offices.

Lead is a key part of the Keep Water Healthy campaign, because many of the old lead pipes in our region are in fact owned by our customers.

### Lead replacement

There are still places in our region where lead pipes are relatively common due to the high number of older homes. These areas are the focus of a major programme to replace lead pipes and alert customers to the risks.

The main source of lead in drinking water remains the private pipes that connect kitchen taps to the water mains, with properties built before 1970 most likely to have lead pipework.

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

This year saw the legal limit for lead in drinking water fall from 25µg to 10µg (micrograms per litre). We have been working to this new limit for many years, replacing our pipework wherever samples show levels above this value.

We have set up a free advice line and last year carried out 554 free lead tests at customers' taps. This was on top of 8,862 other customer tap samples also analysed for lead.

In total, we investigated 216 lead sample failures, helping customers find the source of the lead on their property.

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

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

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

Short of replacing pipes, the best way to control lead levels in drinking water is to add a small amount of orthophosphoric acid. This forms a coating inside the pipe to stop lead dissolving into the water. We have been updating our water treatment works so we can continue to do this in the future.

## Catchment Management

Catchment Management is about tackling pollution at source. Reducing pollution entering our rivers and aquifers from agricultural and urban drainage will improve biodiversity and reduce the need for costly treatment.

We are working with everyone who influences water use in our region – those in agriculture, construction, government, manufacturing, retail, communities and many more – to meet the ambitious targets for water quality set out in the EU's Water Framework Directive.

We have invested in modelling our catchments to better understand which areas to target. Much of the focus is on reducing the amount of pesticides in raw water, including metaldehyde, which cannot be removed by conventional water treatment methods.

The models help us see which approach will deliver the greatest improvements to water quality in each area. They help us understand the potential effectiveness of interventions at a 'field level' and provide robust information so we can engage with landowners.

This year we employed Catchment Advisors to help with our work and also support a number of research initiatives, including crop trials. We are active members of the Metaldehyde Steering Group, a national collaboration between pesticide manufacturers, agriculture and the water industry.

## WaterSafe

Anglian Water was a founder member of the national WaterSafe scheme for approved plumbers, which officially launched this year. The scheme brings together plumbers from the seven existing approved contractors' schemes across the UK on a free database.

For more information see  
[www.watersafe.org.uk](http://www.watersafe.org.uk)

## Working with our regulator

For the second year running we have seconded two of our scientists to the Drinking Water Inspectorate.

Those chosen spend six months as DWI inspectors in a groundbreaking initiative, which brings us knowledge and alternative thinking and will help us maintain the highest standards in water quality.

Last year's secondees have now returned to the company and have been sharing their learning.

One of them, Catherine Smith, said: "This secondment was great for personal and professional development. The DWI has benefited, I've personally benefited and now Anglian Water can benefit too."

## YOUR SERVICE

# RESILIENT SERVICES

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

### Adapting to a changing climate

Climate change is one of the biggest risks we face. We need to ensure our business is adapted to a changing climate to maintain vital services in the face of shifting weather patterns that will lead to declining water resources, poorer water quality and extremes of flooding and high temperatures.

At the end of 2013 we published our Climate Change Adaptation Plan. Based on a risk analysis of climate change impacts we have identified the key steps we need to take to adapt our business. This includes embedding adaptation in decision making, identifying and filling gaps in knowledge and engaging internally, in the region and beyond.

### KEY HIGHLIGHTS

Maintained services to customers during the largest coastal surge for 50 years.

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A 48 per cent drop in sewer blockages in areas targeted by our Keep it Clear campaign.

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In areas where we have run schemes as part of our Optimised Water Network strategy we have reduced burst mains by an average of 40 per cent and reduced the amount of leakage by 35 per cent or 5.85 megalitres a day.

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Anti-theft measures at 50 sites to drive down diesel thefts.

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Re-certification to ISO 22301 (Business Continuity).

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Our plan is aligned with the National Adaptation Programme, contributing to a country-wide effort to cope with climate change.

### ISO 22301

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

## Working with others to protect services

Anglian Water employees sit on 13 Local Resilience Forums (LRFs), and the Multi-Agency Support Group (MASG) for the east of England, which bring together organisations with a role in helping the region cope in times of emergency. We took part in several multi-agency events throughout the year, exercising our joint response to east coast flooding, national power outages, major bathing waters pollution and community resilience. This close working paid off several times during the year's extremes of weather and especially in December, when our region was hit by the biggest coastal surge for 50 years.

Our excellent working relationship with UK Power Networks was invaluable during the high winds and power issues in October, and again in the aftermath of December's huge, 5.8 metre coastal surge.

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

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

## Flood-proofing our sites

Flooding of vital equipment at water treatment works or water recycling centres could interrupt services to many thousands of people.

The tidal surge was followed by heavy rain in January, which caused widespread flooding in southern England. The effects of climate change and a growing population are likely to increase the risk of flooding even further.

We need to make sure our sites are protected and take action now to prevent future problems.

This year, we continued to invest in flood protection measures at 20 water treatment sites.

During AMP6, we plan to invest in defences to protect against surface water, river and coastal flooding at more high-risk water treatment and water recycling sites where the customer and cost benefit are highest.

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

## Theft reduction

High fuel prices coincided with an increase in diesel theft from Anglian Water sites, with approximately 150,000 litres stolen from our water treatment and water recycling centres between April 2012 and September 2013.

In response, we installed new anti-theft equipment and signs at 50 sites across the region. As of the end of February the amount of diesel being stolen had dropped by around 68 per cent compared with the same period the year before.



## TRANSFORMATION

### Keep it Clear

Anglian Water is responsible for a 76,000km network of sewers and pumping stations. Keeping them flowing is a major part of providing a high-quality service. Sewer flooding, while rare, is a serious failure.

One of the biggest causes of sewer pipe blockages, pumping station failures, sewer flooding and pollution is people putting fats, oils and grease, and non-flushable items (wipes and sanitary waste) down toilets, sinks and drains.

By reducing these avoidable blockages, we reduce the risk of sewage backing up into homes and streets or polluting rivers and waterways.

Launched in 2010, our Keep it Clear (KiC) campaign aims to change the way people dispose of fats, oils, grease (FOG) and other unflushables. We set a target to halve the number of avoidable blockages by 2015 from 2010 levels.

**Street art proved an effective way to get our Keep it Clear campaign messages across to Christmas shoppers.**

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### Progress so far

- We have hit our interim target of reducing blockages by 20 per cent by 2012/13 and are on target to halve avoidable blockages by 2015.
- An average reduction in blockages of 48 per cent in the 15 areas targeted so far.
- 10 new Keep it Clear locations to start during 2014/15.
- 250,000+ Keep it Clear personalised mailers have been sent – giving helpful advice direct to customers' homes.
- 100,000+ people directly and indirectly reached through community outreach.
- 800+ food serving establishments (FSE) visited and offered advice and FSE packs endorsed by the Chartered Institute of Environmental Health.
- 10 formal partnerships with community voluntary organisations in Keep it Clear locations.
- Established used domestic cooking oil bank partnership with South Norfolk Council. Norwich City Council to follow.

### Highlight

In December the Keep it Clear Programme Manager became Chair of WaterUK's Sewer Network Abuse Prevention Group. Talks are now underway with manufacturers and retailers to raise the problems wipes and sanitary products can cause and ask for a joint customer awareness campaign.

Many manufacturers have already agreed to adopt the global 'do not flush' logo on packaging. This work ties to a proposal for a new British PAS standard for 'flushable' products.

## HOW WE HAVE PERFORMED

	2013/14	2012/13
Water supply interruptions	00:20 (HH:MM/prop)	00:14 (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 80 to 83.

### Fewer bursts, better service

We are determined to reduce bursts on our network of water mains. It is what customers want. It also protects our water resources and lets us spend more time on maintenance.

We have been running 25 schemes as part of our Optimised Water Networks (OWN) strategy. This aims to improve how we control and monitor our network, reducing problems through better control of pressure in our pipes.

Priority has been given to areas where we can get the most benefit in reducing bursts, interruptions to customers' supply and lower leakage levels.

In these areas we have reduced burst mains by an average of 40 per cent and reduced the amount of leakage by 35 per cent or 5.85 megalitres a day.

At the same time we have serviced or replaced 487 existing pressure-reducing valves, resulting in 21.5 per cent fewer burst mains in areas where this work has taken place.

We now plan to expand the scale and scope of the programme in AMP6 and are already working with suppliers and others in the business on new and innovative solutions.

One example of this approach is work done with one of our key suppliers and with colleagues from a number of teams including innovation, supply, energy and telemetry. Technology developed for our pressure-reducing valves was

installed on one of the pumps at our Marham Water Treatment Works for a 12-month trial, where it delivered significant benefits.

We are currently working on our largest optimisation scheme to date in Peterborough, covering 55,000 properties.

### Anglian Water Business - meeting the needs of business customers

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

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

In November, Anglian Water Business brought together leaders from the water industry, regulators and customers for a roundtable discussion on the future of the water market and the expectations of public sector customers. The debate focused on delivering service, sustainability and value and asked what lessons could be learnt from the water market in Scotland.

We were the first English water company to compete in Scotland and continue to learn from our experiences there.

In April, we rebranded Osprey Water, our Scottish retail arm, which had been serving business customers in Scotland since market opening five years ago. Anglian Water Business is now the one-stop shop for business customers on both sides of the border.

The national brand brings together Osprey's experience of winning business in a competitive marketplace with Anglian Water's decades of expertise in helping businesses save water, energy and money.

## Doing business in Scotland

One of the many things that impressed bookmaker Betfred, upon transferring all of their Scottish outlets to Anglian Water Business this year, was our switching process.

According to Betfred's Estate Manager, Len Hodges: "The ease and speed in the way Anglian Water Business has managed the transition has been great."

We've also maintained a 100 per cent contract renewal rate in Scotland, which is a testament to our high standards of service. Most recently, Asda renewed their contract for 64 Scottish sites with us for a further three years.

Our relationship with Asda in Scotland began in 2011. Since then, we've worked tirelessly to deliver a first-class service. We provide frequent meter and smart meter reads and make sure our billing is prompt, accurate and consistent. We also consolidate the bill, which allows Asda to easily track water usage and costs across all sites.

Sue Pretty, one of Asda's Energy Procurement Managers, said: "Working with Anglian Water Business has been hugely beneficial. They have proved that they are a proactive water company. Several other water companies could learn from their customer first approach."

## Improving satisfaction

We continuously monitor our business customers' satisfaction with our service and strive to improve it. From this research, we know customers want to choose when and how to have their bill delivered. In response, we have launched a new e-billing facility, which allows easy analysis of historical trends and better visibility of water consumption and costs.

We also know that help with improving water efficiency and keeping down costs is important, so we have continued to develop a range of services to do just that.

Our 'active water management' service helps an increasing number of business customers to ensure they only use as much water as they need to. We monitor and analyse customers' water use and alert them to opportunities to reduce it, saving precious time and money.

The East of England Co-operative Society, one of the largest independent retailers in East Anglia, has signed a three-year contract with us to provide active water management.

## Looking ahead

We continue to work with the Open Water Programme to shape the competitive marketplace, and are using our experience in Scotland to inform our strategy for the years to come.

Alongside this work, we will continue to develop and provide innovative services to help customers become more efficient and sustainable in their water use.

## Carbon Trust Water Standard

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

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## OUR WORLD

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

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

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

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

### OUR WORLD

## SUPPLY MEETS DEMAND

**Our region is the fastest growing in the UK. More homes and businesses mean more demand in what is already the driest part of the country.**

Customers told us they recognise water resources are particularly vulnerable to these increasing pressures. They want to see that we have long-term plans in place and are taking action to prevent problems in the future. Good management of our water resource has never been more important.

### KEY HIGHLIGHTS

Leakage at its second lowest-ever level, with performance beyond that for which we were funded.

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Draft Water Resource Management Plan published, setting out how we will balance supply and demand up to 2040.  
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Draft of our revised Drought Plan published.  
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Contributed to a growing number of planning applications and local plans, helping local authorities prepare for a growing population.  
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## Planning for the future

This winter our region received 213mm of rainfall, 150 per cent of the long-term average. This resulted in normal or high groundwater and river levels, with reservoir levels at maximum for the time of year.

No drought restrictions were imposed during 2013/14 and given the current water resource situation none are expected in 2014/15.

We have now published our Draft Water Resource Management Plan, which lays out how we will balance supply and demand up to 2040.

The plan was tested against a number of possible futures. While it proved robust in the short to medium term, there are significant risks in the medium to long term from the effects of population growth, climate change and growing environmental need.

In response, we have included proposals for a long-term strategic water resource planning project in our PR14 Business Plan.

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

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

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

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

The Government made a commitment in the Water White Paper to reform the current system of abstraction management. There is a concern that the current system is not flexible enough to cope with the effects of climate change and a belief that water resources could be allocated in a way that better serves economic growth. Two alternative reform options are being proposed:

- Current System Plus, designed to improve upon the current system
- Water Shares – a more significant change that would redefine water rights as a share of the water available for consumption, as opposed to a volumetric quantity.

We support moves to reform the current system so abstractors can best manage future uncertainty. We have been actively involved in the development of debate about reforms since 2010, and will continue to constructively support the development of the options with Defra and other stakeholders.

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

## Our Water Resource Management Plan – key features

- Extension of our current metering, water efficiency and leakage campaigns to include:
  - 180,000 water efficiency audits with free fitting of water-saving devices
  - Installation of 163,000 domestic meters
  - A leakage target of 172 MI/d.

All these will be delivered by the end of AMP6 with the result that by 2020, we will reduce leakage by more than 18 per cent against our previous Ofwat target and 95 per cent of our domestic customers will have meters

- Schemes to meet our Habitats Directive obligations for the River Wensum and for the North Norfolk Chalk Special Area(s) of Conservation
- A commitment to address any outstanding environmental obligations associated with our licensed abstractions in AMP7. To mitigate environmental risk in the meantime, we will deliver 23km of river restoration projects
- In the longer term, a requirement for additional resource development. At the moment this includes a number of large-scale water reuse schemes as well as transfers from areas in surplus to areas in deficit and trades with adjacent water companies.

## INNOVATION

### Metaldehyde treatment

The new Hall Water Treatment Works near Lincoln will use an innovative way of treating the water it takes from the River Trent. The river water can contain a pesticide called metaldehyde, which is notoriously difficult to remove. Anglian Water has worked in collaboration with a UV technology supplier Trojan and GTM to develop a water treatment process that uses UV light energy and hydrogen peroxide to successfully remove metaldehyde.

**The new Hall Water Treatment Works at Newton-on-Trent will be able to treat and supply 20 million litres of water a day to Lincoln and the surrounding area.**

## Driving down leakage

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

It has been another year of contrasts. The hot summer proved extremely challenging right across the country, drying out the soil and leading to a large number of bursts. The winter was kind to us, however, with our network experiencing one of the lowest burst rates for a decade.

By constantly monitoring our leakage flow and pressure, we spot and respond to more than 30 per cent of leaks proactively, before customers are even aware of them. Nevertheless, with 38,000km of water mains to maintain, the public have a vital role to play in letting us know about leaks so that we can respond quickly and fix them.

We continue to operate a rapid response to leak repairs and fixed more than 80 per cent of all customer reported burst mains within two days. Our ambition is to fix all such bursts within two days, and we are working with local highways authorities and others to achieve this.

We also work hard to keep our leakage monitoring equipment in good condition and have maintained the operability of the system at more than 90 per cent. We fixed a total of 2,229 meter faults and repaired or replaced 154 flow meters.

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

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

## Planning for growth

We serve the fastest-growing region in the country and have a duty to provide water and water recycling services to any new homes or businesses. To make sure we can meet future demand, we work closely with Local Planning Authorities, developers, the Environment Agency and others.

The last year has seen a surge in work due in part to the Government's Help to Buy scheme and changes to the national planning system.

We responded to consultations on eight per cent more planning applications than the previous year, providing councils with information on what developments would mean for our services. This work allows us to deliver new infrastructure in step with growth. Without it, developments could increase the risk of sewer flooding, pollution and low water pressure.

Local Planning Authorities are now required to produce a Local Plan, which maps areas for new housing 15 years or more ahead. We support a planned approach to new development and help councils in drawing up their plans. We supported the production of four per cent more Local Plans last year than in 2012.

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

## OUR WORLD

## FLOURISHING ENVIRONMENT

**A healthy natural environment is the foundation of sustained economic growth and thriving communities. We play our part by managing our land in a way that allows wildlife to survive and thrive. This is often done in partnership with others who can provide expert help and advice. Collaboration is also at the heart of our efforts to help improve the wider environment and to protect the quality of our coastal waters.**

### Managing our land for wildlife

We have legal obligations to protect our region's wildlife and habitats. We also know a healthy and thriving environment improves people's quality of life and supports a thriving economy. Our customers said they support our environmental work, provided it does not have a big impact on bills. We work in partnership with others like Natural England, the Environment Agency, conservation charities and local groups, to get best possible value for money.

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

### KEY HIGHLIGHTS

99.9 per cent of our SSSIs are in 'favourable' or 'recovering' condition.

All 48 of the region's bathing waters met European standards for the 12th year running.

Publication of a biodiversity field guide for operational employees.

Launch of Shellfish Live, the first scheme in the UK to advise shellfish harvesters about water quality.

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

**The newly refurbished visitor centre is now welcoming people to our nature reserve at Taverham Mill near Norwich.**



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

The many benefits society gets from the natural environment are called eco-system services. These services can include maintaining water quality and managing flood risk, which is why we will be doing more work with landowners in future.

Our region is growing fast. Just as we need to work with planners and developers to make sure we keep pace with that growth, we also need to properly compensate for its ecological impacts. Biodiversity offsetting offers a way to do this. We would like to see a robust approach to offsetting that minimises planning delays while delivering meaningful environmental outcomes.

### **Sustainable abstraction**

The Environment Agency is introducing measures to ensure abstraction from groundwater and surface water does not result in environmental damage. The programme, known as Restoring Sustainable Abstraction, will result in us reducing abstraction at some locations. The impact has been assessed through field investigations and, where necessary, solutions have been included in our next business plan to develop alternative supplies that will not have a material impact on the environment. The plan to relocate the river intake at Costessey in AMP6 to comply with the Habitats Regulations is an example of our commitment to achieving environmentally sustainable levels of abstraction. Our plan continues into AMP7 with schemes to deal with unsustainable levels of abstraction in the Lark and Nar catchments.

## **COLLABORATION**

### **Protecting the environment in partnership**

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

### **Biodiversity guide**

Our operational employees have a big role to play in making sure we fulfil our legal obligations to the protected species and habitats on our land. They are the company's eyes and ears on the ground, so to help them we have produced a Biodiversity: Guidance for Operations booklet.

This acts as an initial reference and outlines the things to keep in mind when carrying out day-to-day work on our sites. It has a checklist of things to consider, such as whether there is a bird's nest in a hedge that needs trimming or frogs in a wet well.

It also sets out best-practice management techniques for the most common habitats as well as biosecurity measures to manage invasive species.

Providing this guidance allows our staff to develop new skills, which in turn helps our efforts to identify and record the species present on our sites and get a clearer picture of their value to wildlife.

## Coastal waters

For many people our region is defined by its coastline and by its seaside resorts, which attract thousands of visitors every year.

The gross value added of goods and services produced by coastal towns in the Anglian Water region has been estimated at £576 million a year, while 29,000 jobs in the region are linked to seaside tourism.

The quality of our coastal waters is of vital importance to the regional economy.

Anglian Water works hard to make sure its operations do not impact on the quality of our region's bathing waters. We also work with others at a local level to help tackle problems that might affect water quality.

Once again, all 48 of the region's bathing waters met the standards set out in the European Bathing Water Directive. They have now met this 'mandatory' standard for 12 years in a row. In 2013, the majority (40) met the higher 'guideline' standard. This is one of the requirements for a bathing water to be given Blue Flag status.

Changes to the Directive mean that from 2015 standards will be even tougher, so we continue to invest, using detailed modelling of our network and the coast itself to target money where it is needed.

We were one of the first UK water companies to provide beach owners, the Environment Agency and others with information about discharges from our combined sewage overflows (CSOs) through our BeachAware system.

The system covers all our 48 bathing waters and allows Beach Owners to better advise bathers on water quality.

## INNOVATION

### BeachAware

BeachAware is made possible by innovative flow-sensing technology. This helps us understand sewer flows that can discharge into coastal waters in bad weather. This information is combined with data on tidal movements, bacteriological persistence data and travel times at coastal locations and is then processed by an innovative data handling system called Sewernet, to provide near real-time information on water quality at the beach.

Coastal towns like Clacton play an important role in our region's economy.

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

We are now recruiting Coastal Catchment Managers to work with communities, the Environment Agency and local authorities to identify the sources of diffuse pollution that cause poor water quality.

It's not all about new systems though. The way we schedule work has been reconfigured this year to ensure essential maintenance is better coordinated ahead of the bathing season. Better joint working between different parts of the business means we can start each bathing season knowing our day-to-day activities will not harm the environment.

Network Technician, Christine Box, is one of the many Anglian Water employees working to protect bathing water quality.

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## COLLABORATION

### Thames Estuary Partnership

Collaboration with others is at the heart of our strategy to investigate poor water quality at a local level. This year we joined up with the Thames Estuary Partnership to help protect bathing waters around Southend.

Pollution sources at Southend include properties with misconnected sewerage systems along the seafront, unflushables being disposed of into sewers, dog fouling and littering. Our work – including detailed investigations to identify misconnected properties – is helping the Partnership protect water quality and educate people about behaviour that can cause pollution.

## OUR WORLD

## A SMALLER FOOTPRINT

**Continuing to use more and more of the world's finite natural resources is not a sustainable way to do business. We are working hard to reduce waste across our operations, to recycle and to find value in everything, including the material that passes through our sewage treatment process.**

By reducing our reliance on finite resources, reducing our carbon emissions and generating our own electricity we can reduce costs, drive innovation and improve the resilience of our services. We can also set a powerful example for others to follow.

## Carbon

As one of the largest energy users in the east of England, we are working hard to mitigate the causes of climate change. We are leading by example, with a focus on measuring, managing and reducing our carbon emissions and cutting our reliance on finite resources.

This brings considerable financial savings, makes our business more sustainable and drives innovation in our company and supply chain.

Many customers want to see us reduce our carbon footprint by working in partnership with government, customers and suppliers. By taking the lead and collaborating with others we create a smaller footprint and help others do the same.

Over the five-year period from 2010 our goals are:

- Reduce our gross operational carbon emissions by 10 per cent in real terms by 2015 from a 2010 baseline of 485,930t/CO<sub>2</sub>e\*
- Halve our embodied carbon in new assets we build in 2015 from a 2010 baseline.

\*Note, the baseline has been recalculated in accordance with updated government guidance released in 2013.

## KEY HIGHLIGHTS

96 per cent of waste recycled across the business.

64 GWh of renewable electricity generated.

Further reductions in operational and embodied carbon.

## Measuring

Annual gross operational carbon emissions have decreased by nine per cent in 2013/14 in comparison to the 2009/10 baseline, decreasing from 485,930t/CO<sub>2</sub>e to 442,470 t/CO<sub>2</sub>e\*.

The main influencing factors include a reduction in grid electricity emission factor, a 72 per cent reduction in natural gas usage due to a change in an operational treatment process, reduction in grid electricity usage and increase in renewable generation.

Greenhouse gas emission data has been measured and reported in line with Defra Environmental Reporting Guidelines published in June 2013. This includes revised values for our 2009/10 baseline. Annual net operational carbon emissions have reduced by 9.6 per cent in 2013/14 in comparison to the 2009/10 baseline decreasing from 485,307t/CO<sub>2</sub>e to 438,750t/CO<sub>2</sub>e.\* Our design engineers and capital delivery teams have delivered a 41 per cent reduction in embodied (capital) carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

We also ask and encourage our supply chain partners to seek independent certification of their efforts to measure and reduce carbon emissions. Since June last year, the number of partners certified by one of the schemes accredited to ISO 14064 or the Carbon Trust Standard has grown 97 per cent from 30 to 59.

A detailed breakdown of our emissions is available in our annual Greenhouse Gas Report, produced in line with Defra guidance on measuring and reporting greenhouse gas emissions.

### **Uttons Drove - working with our supply chain to deliver low carbon, low-cost solutions**

During 2013, Uttons Drove Water Recycling Centre was extended to serve an additional 15,000 people and cope with a tightening of discharge consents.

A strategy of off-site build, concrete to steel construction and duplicate function of single assets like tank walls, walkways and roads, the scheme was delivered with 48 per cent reduced embodied carbon and 15 per cent lower capital cost.

Uttons Drove Water Recycling Centre near Cambridge.

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## **COLLABORATION**

### **Sharing our learning**

Anglian Water chairs the Green Construction Board Infrastructure Working Group. As a result, we played a key role in producing the HM Treasury Infrastructure Carbon Review, which was published in November 2013.

This reflected a number of lessons learnt from our experiences in carbon management, highlighting the importance of leadership, innovation and procurement in reducing emissions.

### **Measuring up**

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

### Energy strategy

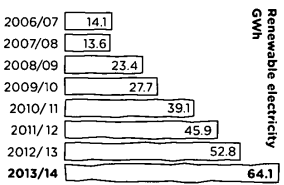
Our energy strategy remains focused on ensuring that our energy supplies are secure and that we measure, manage and reduce our energy costs – and the associated carbon emissions.

### Energy efficiency

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

### Renewable energy

The vast majority of the energy we buy comes from a renewable source and what we generate ourselves has continued to grow. This year we produced 58.8GWh of electricity from our Combined Heat and Power (CHP) engines, which are powered by biogas from our water recycling process. What was considered a waste treatment problem has become a cost-effective water recycling process. The wind turbine at our March Water Recycling Centre contributed an additional 5.3GWh.



**9% reduction CO<sub>2</sub>**  
 IN ANNUAL GROSS OPERATIONAL  
 CARBON EMISSIONS

Mapal Green Energy's Floating Fine Bubble Aeration system in operation.

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

### **Managing demand**

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

### **Energy security**

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

### **Towards zero waste**

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

### **There is no such thing as waste water**

Last year saw us change the name of our sewerage operation from Wastewater to Water Recycling. This better reflects what we do. Sewage is mostly water but it is not wasted. It is cleaned and returned to the environment. Indeed, our whole operation can be seen as an extension of the natural water cycle.

Anglian Water has been leading the way in recycling the sludge and grit left behind by the water recycling process. The sludge is treated and reused as a farmland soil conditioner, while the grit is used in land reclamation. Even the gas produced by the sludge treatment process is used as fuel to run CHP engines. These produce renewable electricity along with heated water and steam that feed back into the treatment process.

## **INNOVATION**

### **HpH**

We have developed and patented a new way to condition sewage sludge prior to treatment. Heating, Pasteurisation, Hydrolysis (HpH) results in the production of higher-quality biosolids for use on farmland. It also generates five per cent more methane gas, which is converted into electricity by our combined heat and power engines. Four HpH plants are now being built and commissioned at Basildon, Ipswich, Grimsby and Colchester. It has saved Anglian Water around £3 million in capital expenditure, compared to the cost of building other more conventional technologies. The increase in gas production will lead to further operational cost benefits of more than £400,000 per year.

## Understanding our performance

To increase the amount we reuse and recycle, we need to understand how much we already do. Until recently most of our reliable data came from Water Recycling and our construction partners. From April 2013 all areas of the business have been asked to report their waste performance.

The figures show we recycled 96 per cent of waste across the business in the 2013/14 financial year. However, as many areas of the business are reporting these figures for the first time, we give a monthly confidence grade to their data. The grades are shown in the table opposite.

All business areas commonly achieve C, with some regularly achieving B. The aim for 2014/15 is to achieve B across the board with some areas regularly getting A.

We have put in place a new framework contract to provide the service and data for the majority of our waste streams, while our construction partners will have the 2014/15 year to adapt to the new reporting requirements.

Once our confidence in the data is higher we will focus on driving up the amount we recycle.

CONFIDENCE GRADE	EXPLANATION
A	Data supported by records, full data set available for inclusion, volumes accurate to best available measures and disposal routes well recorded.
B	Data mostly supported by records, acknowledged minor gaps in data available, volumes not all completed and disposal routes not all known.
C	Data records are incomplete, acknowledged gaps in the data available, inconsistent reporting of volumes and disposal routes.
D	Data records are unavailable, acknowledged gaps in the data available, inconsistent reporting of volumes and disposal routes.

The biosolids produced from the water recycling process are a valuable product for farmers and an important source of income.



## OUR WORLD

# CARING FOR COMMUNITIES

**We play an active role in the communities we serve, with a programme of events and education to engage people on issues such as water conservation and responsible use of the sewer network. Our water parks and nature reserves offer continually improving opportunities for recreation.**

Our operations continue to provide jobs and training across the region. Together with others we are improving the prospects for many more people through our work with schools, charities and community groups.

### Engaging and educating our customers

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

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

### Business Class

We are working as part of the Business in the Community's Business Class programme to support young people facing social disadvantage. We have developed three-year

### KEY HIGHLIGHTS

More than 27,000 people reached through our education centres, in schools and at community events.

Record visitor numbers at our water parks.

Working with others to tackle unemployment and deprivation in the Fenland.

partnerships with four schools around the region to help them address some of the aspiration and attainment challenges they face. Our work is based on the needs of the individual schools and has involved careers fairs, events to improve employability and training with the schools' senior management teams.

Over the next year we will give pupils from the schools work experience, work with them on the Tomorrow's Water competition as part of our Year of Innovation and provide more careers support.

### Water Summit

150 people from across the water industry and beyond attended our inaugural Water Summit. This highlighted the consultation on our Water Resource Management Plan (WRMP) and showcased our approach to long-term planning. We also spoke about our move from wastewater to water recycling, part of our approach to a better understanding and connection with the water cycle. There were also interactive workshops to discuss issues such as risk, growth and the environment as well as a panel discussion with representatives from the Environment Agency, National Farmers' Union, Department for Environment, Food and Rural Affairs, Sustainability East and Institute of Grocery Distribution.

## Keep it Clear Peterborough Christmas campaign

We held a two-day event in Peterborough to say thank you to our customers for reducing blockages for a second year running and to continue raising awareness of how to safely dispose of FOG (fats, oils and grease) over the Christmas period. We used 3D street art to help promote our messages. This has since been used successfully at Bedford College's Sustainability Day and Lincoln University.

## The Big Connect

HRH The Prince of Wales was among hundreds of people to visit our stand at the Business Design Centre in London as part of Business in the Community's The Big Connect event.

Prince Charles stopped by to learn about the work we're doing in Fenland with our alliance partners as part of BITC's Business Connectors programme. This national programme looks to improving employability, job opportunities and enterprise, and support those who are not in education, employment or training (NEETs).

Talented individuals from business are placed in communities to build partnerships that tackle local issues.

## TRANSFORMATION

### Business in the Community Business Connectors programme

In April 2013 we teamed up with our capital delivery partners to select a senior operations manager to work in the Fenland, one of the most deprived areas in our region. We've been working closely with the Ferry Project, a homeless charity in Wisbech, which took on the lease of a disused school with the aim of turning it into a thriving community centre.

## We love to help

Nearly 150 volunteers came together over two days to renovate the disused building including employees, directors and Love Every Drop champions from Anglian Water and the @oneAlliance, people from the Ferry Project community volunteers, and Fenland District Council.

This was done as part of our Love to Help volunteering scheme, which supports employees who want to make a positive difference to their communities and give time to causes that matter to them. There are three streams to the programme: RiverCare, WaterAid and a community cause of the employee's own choice. We currently have 391 people registered as Love to Help volunteers. This year our WaterAid volunteers raised a fantastic £506,763 for the charity through a calendar of events organised by employees.

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

HRH The Prince of Wales visiting our stand at The Big Connect.

“ The Queen Mary Centre had not been redecorated in over 10 years. The paint work was showing its age and people were commenting on it. The external areas looked unkempt and the fences were rotting.

*What a difference two days can make! After the two volunteer days the fences are painted, the gardens are clearer and the inside is like new. We have already had numerous comments about the improvements and the wedding planner is now much more hopeful of bookings. I and all the staff of the Ferry Project want to thank everyone who was involved for giving their time and energy and helping us to make a difference in this community. We will keep you informed of all that happens as a result of your work.*”

**Keith Smith**  
Ferry Project's director

## Recreation

Our Water Parks and nature reserves play a hugely important role in helping us deliver for customers. They provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us meet our goal of making a positive difference to the communities we serve.

We manage public access to almost 4,000 hectares of parkland, woodland and water, most of it centred on 10 of our 14 reservoirs.

These Water Parks are a wonderful resource for the public, offering the chance to spend time outdoors in a variety of pursuits from fishing and sailing to walking, cycling and wildlife watching. They also provide venues for public events.

The prestigious Green Flag – the national standard for park management – was awarded to Alton Water in 2013, and maintained by both Grafham and Rutland Water Parks.

After a dip during the exceptionally wet summer of 2012, visitor numbers to our Water Parks rose dramatically last year. We are able to measure the number of people using the car parks at a number of our sites. Last year this climbed to more than 800,000 – an all time high.

Adding an estimate of the numbers at other sites and those taking part in sporting events, fishing, sailing and trips to nature reserves, we believe more than two million people visited our parks in the last year. More than 600 competitions, charity and public events were held at our parks through 2013.

During the last year, a new parking system has opened at Rutland Water, introducing a fairer tariff and increasing the profitability of the car parks.

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

Over the next 12 months we will continue to develop our parks, with plans to open the UK's largest inland beach at Rutland Water and work to secure new, large-scale events and concerts.

## Creating jobs, developing careers

For our business to flourish in the future, it is important we ensure there is a steady supply of talented people joining the company where they can learn from experienced colleagues.

One of the ways we do this is by providing career opportunities for young people in the region through both our graduate and apprentice schemes.

We currently have 20 people on our graduate scheme, some in specific departments and others on a rotational programme, which sees them gaining a broad experience through a series of placements across the business over a two-year period.

Our track record of retaining graduates is extremely good. Of those who have joined us in the last 10 years, 83 per cent are still with us. Our current graduate population is evenly split between males and females.

We currently have 96 apprentices across our water and water recycling operations and our recruitment numbers have risen year on year since 2010. A further 42 will join this year.

Our Licence to Operate programme for front-line technicians and their managers continues to run and plays an important part in laying the foundations for career development both within Anglian Water and the water industry as a whole. It works by setting benchmarks for competency in using specialist skills and providing recognised qualifications awarded by professional bodies. The programme has run since 2006. In 2014 we have also joined the Energy & Efficiency Industrial Partnership, which brings together a wide range of related employers and seeks to promote careers, employment and training in our sector through partnership activities in schools, with NEETs and with existing employees who need reskilling or further development.

### Charterships

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

In addition other professionals have achieved Chartered status in Engineering, Quality or as Environmentalists. Another cohort of 10 front-line managers are on track to achieve Chartered Environmentalist through the Institute of Water by the summer of 2014.

### Keeping everyone healthy and safe

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

As driving, both for and outside work, is the most dangerous activity for many of our employees, we rolled out a programme of driver risk assessments and seminars in 2013/14. All company car drivers completed an online risk assessment and received tailored tips on how to drive more safely.

Those at highest risk also had the chance to attend Drive Safe workshops delivered by expert road safety trainers. We'll be extending this approach to include all our commercial (van and truck) drivers during 2014/15.

### Increasing awareness of process safety risks

Water and water recycling treatment processes can involve hazardous industrial chemicals and processes. There's no room for complacency in these areas, so this year we've been reviewing our process safety management systems and have taken a leading role in raising water industry awareness.

We are continuing with our successful Get Active programme, which launched in 2012 to help and encourage our employees to improve their health and wellbeing. Large numbers of people signed up to health checks and took part in our Biggest Loser and Biggest Mover weight loss and exercise competitions.

## Playing by the rules

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

Our Occupational Health & Safety Team with the Highly Commended award from RoSPA.

## Among the best in the business

For the 10th consecutive year our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RoSPA). This year we are delighted to have been Highly Commended, placing our health and safety performance among the very best in the water industry. This follows on from last year's Gold Medal, an accolade awarded for our consistently excellent and continuously improving health and safety.

## Safety in numbers

Our ultimate goal is no accidents and no harm to people and we continue to set challenging targets each year to reduce the number of accidents as we strive to meet this goal.

MEASURE AND TARGET	2013/14	2012/13	2011/12
<b>Category 1 incidents - ≤10</b>	11	8	9
The number of accidents and very serious near misses that resulted or could have resulted in death, major multiple fractures, amputation or permanent disability. This year we had no category 1 injuries.			
<b>Accident frequency rate - 0.20</b>	0.21	0.16	0.28
The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors.			
<b>Sick absence - ≤4.5 days</b>	4.96	5.56	5.10
The average number of working days lost per employee due to sickness.			

The last year saw a very slight increase in the accident rate and in the number of potentially serious incidents. However, our overall health and safety performance remains very strong, as shown by our RoSPA award. The number of days lost to sickness fell after a very slight rise last year.

## IN THIS SECTION

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## GETTING IT RIGHT FOR YOU

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

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

### GETTING IT RIGHT FOR YOU

## INVESTING FOR TOMORROW

**Customers see good stewardship of assets as one of our core responsibilities. They want to know we are investing in infrastructure to safeguard water supplies. We have continued to do so and to improve efficiency of our operations. We have also been planning and preparing for the next five-year investment period, which starts in 2015.**

The way we deliver our capital investment programme is being restructured to make sure we can deliver the outcomes asked for by customers, while we continue to search for innovative ways of working.

### KEY HIGHLIGHTS

Performance of our assets has remained solid this year.

One of the first companies in the world to achieve ISO 55001 accreditation, for the quality of our asset management.

Delivered consistently good performance at our water treatment works.

Number of pollutions down 12 per cent.

Proactive detection of burst mains at record levels.

## **World-class asset management**

We have become one of the first companies in the world to achieve ISO 55001 accreditation, the new international standard in asset management.

The new standard is awarded to businesses which effectively and efficiently manage their approach to asset management, whether it's physical infrastructure, management processes, maintenance or planning.

We were also recertified in the previous standard, PAS55, which has been widely adopted by utility, manufacturing, mining and transport companies across the world. The new standard builds on this and has been developed with organisations from over 30 countries.

## **A successful fourth year of AMP5**

In the fourth year of the AMP5 period (2010-15), we continued to build on the solid performance achieved in AMP4 (2005-10), when Ofwat ranked us as leading in terms of capital efficiency in both water and sewerage sides of the business.

We have continued to invest heavily to increase the resilience of our services and protect customers' supplies. This has included work to:

- Improve our ability to move water around the region
- Protect our existing supplies through improved detection and repair of leaks
- Support growth in our region and work with developers.

We will continue to invest to safeguard customers' supply in vulnerable areas of our region, both alone and in partnership with other water companies.

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

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

## **Serviceability – keeping our assets fit for purpose**

A good service relies on well-maintained assets – the pipes, pumps, works, equipment and buildings that allow our business to operate.

Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in assets to keep their service at an acceptable, 'stable' level. Failure to do so can see millions of pounds removed from capital maintenance funds in the next regulatory period, meaning less money is available for maintenance. So it is crucial to keep serviceability 'stable' to maintain our service in the long term.

The performance of our assets remained solid this year and improved in several critical areas. Where problems have arisen we have been quick to investigate and fix them, working hard to understand and solve any underlying issues.

## Water

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

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

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

## Water recycling

Performance is also at target levels at our Water Recycling sites and we continue to invest in improvements at key sites. Nevertheless, the compliance of our WRCs was an area of focus and concern. High levels of sludge retained through the process caused the number of failing works to increase to 16 from the previous year's total of 14. While this still fell within acceptable reference levels it was clearly an area that demanded attention.

By collecting vital process data and analysing trends, we are able to build up a picture of how our works are performing and identify where we are carrying operational risk. Although the number of failing works was disappointing, the overall number of failing samples fell by 10 per cent. We also saw a fall in the number of works with one or no failures left, which indicates our overall compliance risk is reducing.

We saw a significant improvement in the performance of our sewerage network with fewer flooding incidents, blockages and collapses. This is due to our programme of Planned Preventative Maintenance, the continued success of our Keep it Clear campaign and a number of other initiatives, including:

- Contain – potential pollution incidents are monitored and tracked by a central team to ensure our response is timely and appropriate, and we minimise possible impacts
- Blue light response – potential incidents in areas where we know there is a higher than normal risk of flooding and pollution are deployed with a high-priority and faster response.

There was a significant increase in the number of Category 1 and 2 pollutions this year, with the number rising from three to nine.

There was no one reason for the rise but rather a mixture of causes, including the weather and environmental sensitivity.

While the number of incidents is not outside the normal range for us as a company, it is clear we need to continue to challenge and evolve our approach to operating the network to drive performance towards our goal of no pollutions.

At the same time, new guidance and refresher training has reinforced awareness of what constitutes a Category 1 or 2 pollution for staff at water and sewerage companies and at the Environment Agency.

In future, the use of flow monitoring and automated control will help us balance flows within the network and reduce the risk of incidents.

Despite the rise in these more serious incidents, the measures mentioned above meant the total number of pollutions fell by 12 per cent this year.



## Prosecutions

We were fined £28,000 in December after poorly treated sewage was discharged into the North Sea from our Clacton (Holland Haven) Water Recycling Centre in March and April 2012.

Although neither incident impacted the quality of nearby bathing waters, they were nonetheless a breach of our permit. We have since invested in the site and made changes to the way it operates to avoid a repeat.

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

## HOW WE HAVE PERFORMED

	2013/14	2012/13
Serviceability water non-infrastructure	<b>STABLE</b>	STABLE
Serviceability water infrastructure	<b>STABLE</b>	STABLE
Serviceability sewerage non-infrastructure	<b>STABLE</b>	STABLE
Serviceability sewerage infrastructure	<b>STABLE</b>	MARGINAL
Sewer flooding incidents	<b>116</b>	204
Pollution incidents (sewerage) (Category 1 to 3 incidents per 10,000km of sewer)	<b>87.1</b>	99.7
Serious sewerage pollution incidents (Category 1 and 2) per 10,000km of sewer	<b>2.2</b>	0.7
Discharge permit compliance	<b>97.5%</b>	98.1%

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 80 to 83.

## A hard lesson

This year we missed our target for the number of people served by a failing works. This was due to a failure at Colchester Water Recycling Centre, which serves the equivalent of 120,930 people.

There was a pressing need to reduce compliance risk at the site and increase treatment capacity to cope with a growing population. This led us to try an innovative treatment process, which promised to increase the site's capacity without the need to build new infrastructure. This would have made the site more efficient for less money and less carbon than expanding the traditional treatment process.

While the technology was installed successfully at another site, it did not initially work at Colchester and this led to the site failing to meet consents on the quality of the water returned to the environment.

The new treatment process is now working as hoped and it is a shame that in this case our attempts to do the right thing ended with a failing works. We remain committed to using innovative, low-cost, low carbon technology where possible. However, the experience at Colchester reinforced the need for rigorous appraisal of such technology before putting it into service on so sensitive a site.

### Improving efficiency - robust capital delivery planning

Delivering the planned capital programme to time, cost and desired quality remains a key business driver for us. We are constantly reviewing our operation to increase efficiency and reduce costs. This year we have again been hit by inflation, the rising costs of energy and other obligations, and this has given added impetus to our efforts.

In delivering our capital programme we work to design solutions that help us reach our target of a 50 per cent reduction in embodied carbon, along with the associated reduction in costs. We are on track to achieve this target by 2015.

So far this AMP, we have achieved a 41 per cent reduction in embodied carbon, as measured against our 2010 baseline, which

### Preparing for AMP6: Discover, Discuss, Decide... Deliver

We want our suppliers and contractors to help us deliver the outcomes our customers tell us they want. We want them to work with us to meet the Love Every Drop goals that drive us towards those outcomes.

Experience has shown we also get the most benefit in our capital delivery frameworks where we have worked collaboratively with our supply chain.

With the next five-year Asset Management Plan period (AMP6) beginning in 2015, we have taken the opportunity to change the way we deliver our capital investment.

## COLLABORATION

we have delivered through intelligent design, off-site build and use of standard products.

By increasing our use of 'no dig' techniques in the last year, we have driven even lower carbon solutions. From an AMP4 base of five per cent, more than 67 per cent of our sewer rehabilitation is now delivered through non-intrusive methods.

Working collaboratively with our capital partners has led to new ways of working, less waste and less carbon, while allowing for more focus on better customer service. Our approach continues to deliver new ways of reducing costs, improving efficiency and increasing our operational flexibility. Our underlying principle is to develop the right solutions for the right application, harnessing the most appropriate commercial models to ensure the most efficient delivery.

Our entire capital delivery is being put out to market at the same time to ensure a consistent approach across the board. All our contractors will be appointed on the basis that they are signing up to deliver the outcomes asked for by our customers. This includes reducing our carbon footprint by meeting our Love Every Drop goal to reduce embodied and operational carbon.

Bidding companies were required to confirm they would achieve certification to an accredited carbon standard, confirming their efforts to measure and reduce greenhouse gas emissions, before or within 12 months of being awarded a contract. Of the 28 organisations so far selected or in the bidding process, 23 have achieved certification with the remaining five committed to it.

## TRANSFORMATION

### All change!

Most of our capital investment is currently delivered through six groups of framework agreements. These range from Special Projects, which delivers a small number of very large projects, through to Repair and Maintenance and Developer Services, which delivers a large number of very small jobs.

In AMP6 this will be reduced to four new 'delivery vehicles'. In May we announced our partners for the first of these - Integrated Main Works Capital (IMWC), which will cover all types of complex construction and refurbishment projects.

Our IMWC partners are the first to join our four alliances which will all work in a commercial environment designed to encourage collaborative working, earning their return primarily through joint incentives for outperformance of targets.

We believe this all adds up to an industry-leading approach, and there have been several other innovations in our procurement process.

- We have gone for a potential 15-year term - three AMP periods, the longest in the industry - to ensure real, long-term collaboration and unlock the most joint investment for tomorrow
- Over half of the weighting was given to the behaviour of staff from bidding companies, not just tendered prices. This was to make sure we got the right people as well as the right partners
- The work done with Infrastructure UK producing a 'procurement routemap' for best practice in infrastructure delivery.

### Delivering for customers in AMP6

In AMP6, the number of frameworks will be reduced to four, with contractors signing up to collaborative agreements in one of the following 'delivery vehicles':

- IMWC combines the work of Special Projects and the @oneAlliance to cover all types of complex construction and refurbishment projects
- Integrated Operational Solutions covers Water and Water Recycling local maintenance and repair projects
- Integrated Maintenance and Repair covers Water and Water Recycling network (pipelines) maintenance
- Integrated Metering and Developer Services covers industrial and domestic metering, new housing and estate infrastructure and water efficiency audits.

**Representatives from each of the Integrated Mains Work Capital partners sign the contract for AMP6 with Chris Newsome, Director Asset Management, Anglian Water.**

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## Fighting the floods

The last year saw significant flooding around the UK from rivers, sea and surface water. Such events are likely to become more common, threatening to disrupt our services.

Flooding is a complex problem and tackling it requires close collaboration between a number of organisations, with water companies playing an increasingly important role.

The Flood and Water Management Act places a duty on everyone with responsibility for tackling flood risk to co-operate and share information. As a result we are working with the 21 Lead Local Flood Authorities (LLFAs) in our region to plan for the future. This year we have helped with a large number of flooding strategies, plans, investigations and reports.

## Working together

In the past, schemes to tackle flood risk were paid for by central government. Successful bids were funded in full, while unsuccessful schemes went unfunded. This has now changed.

Government will now contribute to schemes, adding to money from others who will benefit. This means public money goes further but as potential beneficiaries, water companies are likely to be asked for contributions.

To work out how much we might be asked for, we spoke to all the LLFAs in our region, asking them to identify projects where they would be asking for contributions during AMP6. Where these projects also provide benefits for our customers, we have proposed partnership funding to support them within our next five-year investment period. As a result we could help fund 53 projects at a cost of £8.4 million between 2015 and 2020.

## Sustainable drainage

Anglian Water continues to lead the water industry on the adoption of sustainable drainage systems (SuDS) on new developments. These improve an area's natural ability to absorb

surface water and reduce flood risk without expensive, carbon intensive engineering solutions. This helps to provide developers with security in a time of uncertainty and helps enable growth. We are also working with Defra and WaterUK, playing an important role in shaping National Standards for Sustainable Drainage.

## Innovation

The challenges facing us are also driving innovation and transforming our business. We see Anglian Water becoming a hub of innovation in our region, creating wealth and jobs.

Innovations have already reduced costs, environmental impacts and operational risk. It is anticipated our core innovation programme will deliver more than £20 million in benefits over AMP5 in capital and operational cost savings.

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

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

On a national level, we play a leading role in UKWIR (UK Water Industry Research). This collaboration between all the UK's water and sewerage companies delivers research projects and shares knowledge to overcome national issues in areas such as leakage, asset management and water treatment.

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

## GETTING IT RIGHT FOR YOU

# FAIR PROFITS

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

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

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**£2bn**

**OF PRIVATE  
INVESTMENT  
INTO THE AREA  
OVER 5 YEARS**  
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## KEY HIGHLIGHTS

Sharing outperformance with customers.  
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Total direct and indirect tax contribution of  
£167 million.  
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### **Our role as a good corporate citizen**

Anglian Water takes its responsibilities as a good corporate citizen very seriously.

We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid.

Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund that investment. We have one of the largest levels of private investment in the region, worth more than £2 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 CBI Statement of Tax Principles, which aims to drive greater tax transparency in business and encourages companies to explain what they do in a straightforward and accessible narrative. However, the company's total tax contribution for the year extends significantly beyond the payment for corporation tax.

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

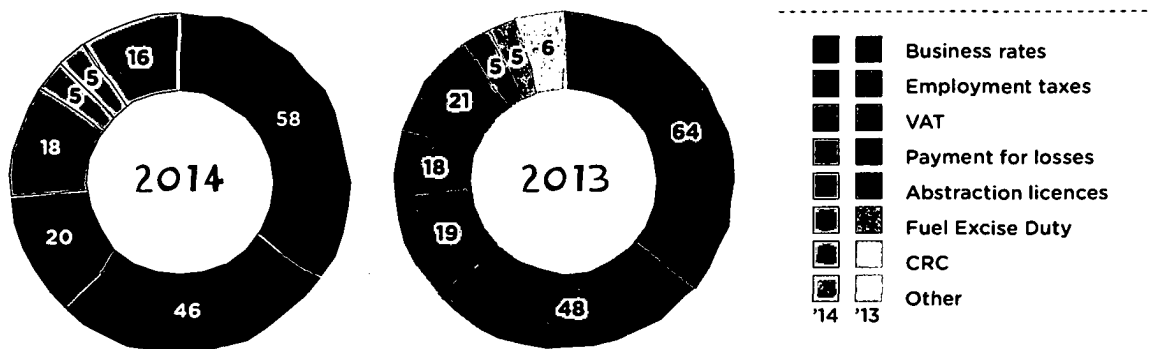
The most significant taxes involved, together with their profit impact were:

- Business rates of £58 million paid to local authorities. This is a direct cost to the company and reduces profit before tax

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

## AWS total tax contribution

Figures in £ million



## Attracting investment

Profits are essential to attract private investment, as customers' bills alone could only fund a fraction of what we invest each year. We have to provide investors with a reasonable return on their investment. We also believe excellent performance should be reflected in higher profits.

However, profits can rise or fall due to factors not directly related to excellent performance – for instance, the level of interest rates, the rate of inflation, or unexpected new legal obligations.

When inflation outturns at a higher rate than assumed at a determination, this can benefit companies, and this may be perceived as unfair. However, the link to inflation is a key driver of the relatively low costs of capital from which customers benefit. Conversely, if inflation outturns significantly lower, this can adversely affect the company's finances.

## Sharing outperformance with customers

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

We also chose to hold the increase in bills in 2014/15 below the level allowed for by the regulatory settlement. This reduced the amount payable by customers by £10 million.

## Our dividend policy

The appropriate level of dividends for a company like ours is influenced by a range of factors, including the ownership and performance of the Company.

Our dividend policy is to identify the cash available for distribution having set aside enough to meet our liquidity requirements for funding our operations, servicing the capital programme and also repaying maturing debt. The dividend policy is also limited by ensuring there is adequate headroom in our projections of financial covenants.

In assessing any dividend payment, the independent non-executive directors have to consider business performance forecasts and the potential impact of external factors in the economy, as well as the regulatory environment, on forecast cash flows.

We believe this cash-based approach provides an acceptable and fair return to the equity investors while ensuring the liquidity requirements of the business are fully met.

It has also proved resilient to the impacts of the financial crisis; to the Retail Price Index (RPI) falling below zero; in responding to the drought in 2012, and in absorbing the costs of new obligations.

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**£43m**

INVESTMENT  
COMMITTED  
TO PROTECT  
CUSTOMERS  
**FROM THE  
IMPACTS OF  
DROUGHT**

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# FINANCIAL PERFORMANCE

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

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

## Financial results

The consolidated profit and loss account as presented on page 149 is summarised in the table<sup>1</sup> below:

	2014 excluding transactions with AWS Holding companies £m	2014 transactions with AWS Holding companies £m	2014 Total £m	2013 Total £m
<b>Turnover</b>	1,214.0	-	1,214.0	1,163.0
Operating costs	(451.2)	-	(451.2)	(445.8)
Depreciation	(271.8)	-	(271.8)	(262.4)
<b>Operating profit</b>	491.0	-	491.0	454.8
Net interest payable and other finance charges	(330.9)	192.3	(138.6)	(153.1)
Profit before tax	160.1	192.3	352.4	301.7
Current tax charge	(22.4)	-	(22.4)	(30.2)
Deferred tax credit/(charge)	19.1	-	19.1	24.3
Total tax charge	(3.3)	-	(3.3)	(5.9)
Profit after tax	156.8	192.3	349.1	295.8
Dividends <sup>2</sup>	(202.1)	(192.3)	(394.4)	(357.2)
Transfer from reserves	(45.3)	-	(45.3)	(61.4)

<sup>1</sup> In order to show the position of the Anglian Water Services Financing Group (AWSFG) (as defined in the ownership structure on page 29), the table shows the profit and loss account excluding internal interest receivable by the group from Anglian Water Services Holdings Ltd and the internal dividend paid by the group and retained within the AWSFG of £192.3 million (2013: £192.7 million).

<sup>2</sup> Dividends paid to shareholders for the year ended 31 March 2014 were £202.1 million (2013: £164.5 million). The remaining £192.3 million (2013: £192.7 million) is the internal dividend referred to in the footnote above.



Turnover for the year was £1,214.0 million, up 4.4 per cent on last year. This reflects the regulatory price increase of 4.1 per cent (K factor of 1.1 per cent and RPI of 3 per cent), and other increases of 0.3 per cent due principally to a recovery in demand from household customers, partially offset by lower demand from our smaller non-household customers. The net increase is consistent with the drier and warmer weather in the summer of 2013, and early spring of 2014 which saw a return to more normal levels of consumption. This was in contrast to the late spring and summer of 2012 being exceptionally wet, which suppressed demand.

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

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

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

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

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

Operating profit has increased by 8.0 per cent to £491.0 million as a result of the increase in turnover, partially offset by the more modest increases in operating costs and depreciation noted above.

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

## FINANCIAL PERFORMANCE

### Taxation

The current tax charge on the profit before tax of £160.1 million (excluding intra-group interest receivable) was £22.4 million (2013: £30.2 million). This reflects a reduction in the corporation tax rate from 24 per cent to 23 per cent for the year and a higher level of capital allowances claimed on the substantial capital investment we make (including more than £2 billion over the current five-year regulatory period), as agreed with the Regulator to improve the service to customers. The total tax charge of £3.3 million (2013: charge of £5.9 million) consists of the current tax charge of £22.4 million less a deferred tax credit of £19.1 million (2013: credit of £24.3 million). In the prior year we had a larger deferred tax credit, which was principally attributable to the level of discounting of the deferred tax liability.

Total tax paid or collected in the year to 31 March 2014, other than corporation tax, amounted to £167.0 million (2013: £178.0 million) of which £53.0 million was collected on behalf of the authorities for net value added tax (VAT) and employee payroll taxes. Further details are provided in our section on fair profits.

### Successful fourth year of AMP5 investment programme

Gross capital expenditure in the appointed business for the year was £424.3 million (£227.9 million on capital maintenance, £196.4 million on capital enhancement), compared to £496.5 million in 2013. Cumulatively to the end of the fourth year of AMP5 we continue to be in line with expected regulatory outputs. Projects progressed during this year include a £9.7 million scheme to support growth in Cambridgeshire, new infrastructure totalling £29.0 million taking water from north Lincolnshire to the Boston area and £45.0 million on a major new water treatment works at Hall in Lincolnshire.

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

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

Continuing the work we have already done in this AMP period to increase our resilience and protect existing customers' supplies, we have invested during the year a further £13 million in leakage detection and repair work and further investment is planned in the final year of AMP5.

An additional £3.4 million was spent on the non-appointed business, mainly in relation to installing two wind turbines at one of our sites as part of our renewable energy commitment. Self-generation from all our renewable sources for 2013/14 was 64.1GWh (8.9 per cent of total consumption), compared to 52.8GWh in 2012/13 (7.3 per cent).

## Financial needs and resources

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

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

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

## Distributions

Dividends paid out of the group for the year ended 31 March 2014 were £202.1 million (2013: £164.5 million), which equates to £20.21 per share (2013: £16.45 per share). In addition an intra-group dividend of £192.3 million (2013: £192.7 million) was paid and committed to Anglian Water Services Holdings Limited (via Anglian Water Services Overseas Holdings Limited) in order for

it to service the interest payable to the Company on the inter-company loan of £1,602.6 million. This dividend is retained within the Anglian Water Services Financing Group (AWSFG). In total, dividends of £394.4 million (2013: £357.2 million) have been paid and committed at £39.44 per share (2013: £35.72 per share).

The Directors have proposed a final dividend for the year ended 31 March 2014 of £11.10 per share, which is a total of £111.0 million. This distribution has not been accounted for within the 2013/14 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 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 of 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, including an assessment of the next Asset Management Plan period to 2020. The Directors consider this cash-based approach provides an acceptable return to the equity investor while ensuring the liquidity requirement of the business is met fully. 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.

## FINANCIAL PERFORMANCE

### 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 2014 the Company held cash, deposits and current asset investments of £687.4 million (2013: £1,078.0 million). The decrease in cash held compared to the prior year reflected the significant pre-funding in 2012/13 of debt repayments falling due in 2013/14. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 16 on pages 167 to 173 of the accounts.

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

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

All bank facilities and debt capital markets issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between 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, 54.0 per cent (2013: 54.8 per cent) of the Company's borrowings were at rates indexed to RPI, 37.0 per cent (2013: 34.6 per cent) were at fixed rates and 9.0 per cent (2013: 10.6 per cent) were at floating rates.

### Pension funding

The FRS17 pension deficit (before deferred tax) at 31 March 2014 stood at £60.7 million for all schemes, compared to a deficit of £86.1 million at 31 March 2013. This decrease in deficit reflects our deficit reduction payments in the year of £22.7 million, together with a reduction in relevant inflation rates. The increase in the value of pension scheme equity assets resulting from the stock market gains in the year was largely offset by the relatively poorer performance of gilts.

## 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 188 to 220. 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 80 to 83. 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). For 2013/14 this KPI was 4.7 per cent compared with 4.2 per cent in the prior year. The increase is largely due to the higher operating profit referred to above.

**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 corporate credit rating is Baa1, unchanged from prior year and in line with expectations. The regulatory review process for the period 2015-20 is now well underway, with Final Determinations due to be published by Ofwat towards the end of this year.

Each of the three rating agencies have been publishing reports as the regulatory process has progressed, and Fitch Ratings announced at the end of January 2014 that its outlook for the industry has been changed to negative. Moody's has amended the outlook for Anglian Water (Osprey) Financing Plc (a company owned by Osprey Acquisitions Limited), rated Ba3 to negative pending clarity of the review process, but affirmed the current ratings of Anglian Water Services Limited.

**Gearing** - gearing is a measure of the Company debts as a percentage of the Company's regulatory capital values. Our gearing level of 79.6 per cent at 31 March 2014 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 1.64, which is in line with our lenders' expectations.

## HOW WE HAVE PERFORMED

	2013/14	2012/13
Post-tax return on capital	4.7%	4.2%
Credit rating	Baa1	Baa1
Gearing	79.6%	79.5%
Interest cover	1.64	1.47

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 80 to 83.

# KEY LOVE EVERY DROP COMMITMENTS AND REGULATORY KPIs 2013/14 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

The Love Every Drop commitments are currently being reviewed and updated following the changes and additions to the goals and the creation of the outcomes. These changes will be reported in the 2015 report.

		Status	Pages to find further detail
<b>Love Every Drop goal - 100% of our customers very satisfied with our service</b>			
Love Every Drop commitment	We will increase customer satisfaction year on year.	●	33-35
Love Every Drop commitment	We will respond to the needs of our most vulnerable customers and act to improve our service to them.	●	36-37
Love Every Drop commitment	Expand the WaterCare register to business as usual.	●	Reported in previous reports
Love Every Drop commitment	We will ensure our bills remain 'affordable'.	●	36
Regulatory KPI	Service Incentive Mechanism [measures the level of customer concerns with our service and how well we deal with them].	● 87 (score)	30, 33-35
<b>Love Every Drop goal - Frontier performer in our industry</b>			
Love Every Drop commitment	We will continue to maintain world-class drinking water quality.	● 99.96%	38
Love Every Drop commitment	We will work with and learn from businesses and our communities to champion and support innovation.	●	70
Regulatory KPI	Leakage [measures distribution and supply pipe losses in megalitres per day (MI/d). It includes uncontrolled losses between treatment works and the customer's stop tap. It does not include internal plumbing losses].	● 193 MI/d	30, 49
Regulatory KPI	Post-tax return on capital.	4.7	79
Regulatory KPI	Credit rating.	Baa1	79
Regulatory KPI	Gearing.	79.6	79
Regulatory KPI	Interest cover.	1.64	79
Regulatory KPI	Serviceability water non-infrastructure [assesses the reliability of service and asset performance for our water non-infrastructure (treatment works etc)].	● Stable	67
Regulatory KPI	Serviceability water infrastructure [assesses the reliability of service and asset performance for our water infrastructure (pipes etc)].	● Stable	67

		Status	Pages to find further detail
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	67
Regulatory KPI	Serviceability sewerage infrastructure [assesses the reliability of service and asset performance for our sewerage infrastructure (sewers etc)].	● Stable	67
<b>Love Every Drop goal - No pollution</b>			
Love Every Drop commitment	We will campaign to change people's behaviour on disposal of fats, oils and grease and unflushables.	●	43
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].	● 116 (incidents)	66
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].	○ 87.1 (Cat 1-3 incidents/ 10,000km of sewer)	66-67
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].	○ 2.2 (Cat 1-2 incidents/ 10,000km of sewer)	66-67
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].	○ 97.5%	66-67
Regulatory KPI	Satisfactory disposal of sludge [a measure of our compliance with stringent legal obligations].	● 100%	57
<b>Love Every Drop goal - No incidents</b>			
Love Every Drop commitment	We will improve our performance and behaviours so that we will operate without any serious water quality incidents.	● 0 (Category 4 or 5 incidents)	38
Regulatory KPI	Water supply interruptions [measures time lost due to water supply interruptions for three hours or longer, per property served].	● 00:20 (HH:MM/ prop)	44

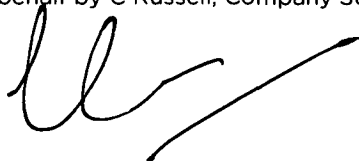
## KEY LOVE EVERY DROP COMMITMENTS AND REGULATORY KPIS 2013/14 SUMMARY TABLE

		Status	Pages to find further detail
<b>Love Every Drop goal - No accidents</b>			
Love Every Drop commitment	We will work with our staff and contractors to reduce accidents to zero.	● 0.21 (AFR)	62-63
<b>Love Every Drop goal - Leading employer in our region</b>			
Love Every Drop commitment	We will help our employees stay fit and healthy.	●	62
Love Every Drop commitment	We will appoint and train Love Every Drop Champions in all our teams.	● 240	60
Love Every Drop commitment	We will include achievement of our Love Every Drop commitments in rewards and incentives.	●	Reported in previous reports
Love Every Drop commitment	We will encourage our employees to contribute to the environment and communities we care for.	●	60
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.	●	Reported in previous reports
Love Every Drop commitment	We will work with our contractors to encourage health and wellbeing initiatives in our supply chain.	●	Reported in previous reports
Love Every Drop commitment	We will encourage our employees to understand how they can lead more sustainable lives.	●	60-61
Love Every Drop commitment	We will train all relevant employees in responsible buying by 2012.	●	Reported in previous reports
<b>Love Every Drop goal - We will halve the embodied carbon in the building of new assets by 2015 (from 2010 level)</b>			
Love Every Drop commitment	We will halve the embodied carbon in the building of new assets by 2015 (from 2010 level).	● 41% reduction	54
<b>Love Every Drop goal - Reduce our operational carbon emissions by 10% in real terms by 2015 from 2010 baseline</b>			
Love Every Drop commitment	We will implement a 'drop carbon' initiative by 2011, to build on existing carbon savings company wide.	●	Reported in previous reports
Love Every Drop commitment	We will target business mileage and fuel efficiency of company vehicles to reduce carbon emissions.	○	Reported in previous reports
Love Every Drop commitment	We will invest in additional renewable energy CHP generation and optimise outputs from our existing CHP units.	● 64GWh generated	56-57
Love Every Drop commitment	We will increase the flexibility of our office space use and working practices to benefit environmental impact.	●	Reported in previous reports



		Status	Pages to find further detail
<b>Love Every Drop goal - Get it right first time, no rework. Zero waste</b>			
Love Every Drop commitment	We will improve the delivery of our capital programmes.	●	68
Love Every Drop commitment	We will achieve and maintain relevant international and national certification standards for our operations.	●	55, 65
Love Every Drop commitment	We will reduce waste across all our operations to become a zero waste company.	●	58
<b>Love Every Drop goal - Effective management of the impact of growth and climate change in our region</b>			
Love Every Drop commitment	We will seek to understand the impact of climate change on our assets and increase their resilience where possible.	●	41-42, 47-48
Love Every Drop commitment	We will help people to understand the real benefits that water brings to their lives.	●	37, 59
Love Every Drop commitment	We will work with our contractors and partners to create a sustainable region.	●	23, 70
Love Every Drop commitment	We will help business customers understand and reduce embedded water in their products and processes.	●	44-45
Love Every Drop commitment	We will help local communities to understand and be prepared for the risk of flooding in our region.	●	70
Love Every Drop commitment	We will work with local authorities, developers and strategic partners to prioritise water sustainability in the planning process.	●	70
Love Every Drop commitment	We will protect and enhance biodiversity on our sites.	●	50-51
Love Every Drop commitment	We will encourage and support employees and customers caring for our region's environment.	●	50-51
Regulatory KPI	Net greenhouse gas (GHG) emissions [measures our annual operational GHG].	● 439 (ktCO <sub>2</sub> e)	54
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)	44

This Strategic Report was approved by the Board of Directors on 30 May 2014 and signed on its behalf by C Russell, Company Secretary, 30 May 2014.



**Claire Russell**  
Joint Company Secretary  
30 May 2014

# GOVERNANCE

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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.

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### BOARD AND COMMITTEE ATTENDANCE

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# BOARD OF DIRECTORS

## **Sir Adrian Montague, Chairman**

Sir Adrian Montague was appointed Chairman of Anglian Water Group Limited (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, was appointed to the board of Aviva plc on 14 January 2013 and became its Senior Independent Director on 8 May 2013. He is a Non-Executive Director of Cellmark Investments AB and Skanska AB. He is Chairman and Trustee of the Point of Care Foundation.

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; Chairman of Infrastructure Investors Ltd from 2002 to 2009; and Chairman of Cellmark Investments AB from 2008 to 2013.

## **Executive Directors**

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

Scott Longhurst was appointed Group Finance Director of AWG in November 2004. In January 2010, Scott was 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 Chairman 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 and Group Chief Executive Officer**

Peter Simpson was appointed Managing Director of AWS in January 2010 and Chief Executive of AWG in October 2013. He previously held the position of Chief Operating Officer of AWS, 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 Chairman of Water UK from April 2012 until October 2013, is a Chartered Water and Environmental Manager, a Chartered Environmentalist, a Fellow of the Institute of Water and a Chartered Health and Safety Practitioner. Peter was appointed a Director of Open Water Market Limited on 15 April 2014. He also holds an MBA from Warwick Business School.

## BOARD OF DIRECTORS

### **Jean Spencer, Director of Regulation**

Jean Spencer was appointed as Regulation Director in May 2004. Prior to joining Anglian Water, she held a number of positions with Yorkshire Water and Kelda, including Head of Regulation, Head of Internal Audit and Regulatory and Accounting Controller. 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 is also a member of the advisory board of the National Railway Museum, a Trustee of the Windsor Leadership Trust and Chairman of the Transport Coordinating Committee for the Rugby World Cup in 2015. Christopher was a Board Member of Transport for London for five years, stepping down at the end of 2012 and also chaired the Rail Panel. He stepped down as a Non-Executive Director of Aggregate Industries Limited in December 2013. 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.

#### **Robert Napier, CBE**

Robert Napier was appointed in February 2002, and became Senior Independent Director on 8 November 2013. 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.

#### **Paul Whittaker**

Paul Whittaker was appointed on 14 October 2013. Paul has been Director, UK Regulation at National Grid plc since April 2006. In this role he leads UK regulatory strategy and price control activities and supports individual UK businesses in their day-to-day regulatory discussions. Prior to that, he was Group Head of Strategy. He sits on the Boards of the two main UK operating subsidiaries - National Grid Electricity Transmission plc and National Grid Gas plc.

Paul joined British Gas in 1981 and has held a number of commercial, business development and regulatory roles including spells working on regulated gas businesses in the United States and India; helping to establish the network code which governs the operation of the UK gas market; establishing the business model for the unbundled UK gas storage assets in the competitive market; and leading a gas transmission and distribution joint venture in Egypt.

## **Additional Non-Executive Directors**

### **Andrew Cox**

Andrew Cox was appointed as a Non-Executive Director representing 3i group on 1 April 2014. He has been an alternate Non-Executive Director of AWG since May 2012. He is a Director within 3i's infrastructure investment business, responsible for the origination, structuring and asset management of infrastructure investments. He also sits on the boards of Cross London Trains, the Thameslink rolling stock finance vehicle and Elenia Lampo, a Finnish district heating company. He has worked at 3i in the infrastructure team since 2006, prior to which he was at Ambac Assurance and Schroders/Citigroup, advising on and lending to infrastructure projects.

### **Andreas Köttering**

Andreas Köttering was appointed as a Non-Executive Director on 1 April 2014. Andreas works for CPPIB's London office where he is Managing Director, Head of Infrastructure - EMEA. Prior to joining CPPIB in October 2008, Andreas worked for 12 years in investment banking for Schroders and Citigroup, providing M&A and capital markets advice to clients in the infrastructure and utilities sectors. Before that he held positions as a principal investor at Siemens in Germany and Hong Kong, and as project finance banker at Kreditanstalt für Wiederaufbau (KfW) in Frankfurt. Andreas joined the board of Solveig Gas Norway as a Non-Executive Director in May 2011. He has been an alternate Non-Executive Director of AWG since March 2012.

Andreas graduated from the London School of Economics with a B.Sc. (Econ) and then went to St Antony's College, Oxford University, to obtain an M.Sc. in Agricultural Economics and a D. Phil. with a thesis on 'Futures Trading in Commodity Markets'.

### **Niall Mills**

Niall Mills was appointed as a Non-Executive Director on 1 April 2014. Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct

Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports. Niall is also a Director of Electricity North West and of several other Fund Investments across Europe. He has been a Non-Executive Director of AWG since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

### **Christian Seymour**

Christian Seymour was appointed on 1 April 2014 and represents the IFM Investors investor group. He has been a Non-Executive Director of AWG since September 2006. Christian is responsible for the business expansion in Europe and oversight of IFM's existing European asset portfolio. Christian has been with IFM for over 10 years and for the past eight years has been based in London where he established the European operation.

Christian has led, or held oversight for a number of IFM's deals, including the acquisition of the Manchester Airport Group and the take private of Anglian Water. He is a Director of these portfolio companies and also Arqiva, the UK telecommunications infrastructure company.

Christian has a background in the project development, marketing and operations management of energy and related infrastructure developments.

Spanning a period of 20 years, he has worked for companies such as Duke Energy, BHP Billiton, Bechtel and Woodside on medium to large-scale projects, successfully leading multi-disciplinary project teams.

Christian holds a Master of Commercial Law from the University of Melbourne, a Master of Business Administration from the Queensland University of Technology and a Bachelor of Engineering (Hons First Class) from the University of Queensland.

# CORPORATE GOVERNANCE REPORT

## Principles of Corporate Governance

The Company and the Group are committed to high standards of corporate governance. Although Anglian Water Services Limited is not a listed company, under the terms of its Licence from Ofwat, the Company is required to have regard to the UK Corporate Governance Code 2012 (the 'Code'). The Company has therefore elected to comply with the Code on a voluntary basis. The Code (which can be found on the website of the Financial Reporting Council) 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 below.

In September 2013, Ofwat published a paper entitled 'Board leadership, transparency and governance'. In this paper Ofwat stated that it was "setting out a series of principles that companies' Boards can build on in developing their own leadership and governance codes". We have developed the Anglian Water Services 2014 Corporate Governance Code (the '2014 Code') in response to the governance proposals put forward by Ofwat. Our 2014 Code came into effect on 1 April 2014 and we will report on our compliance with the 2014 Code in our 2015 Annual Report and Accounts. You can find a copy of our 2014 Code on our website. We aim to be fully compliant with our 2014 Code by 1 April 2015.

## 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. The CTA restricts amendments to the articles of association of the Company without obtaining prior consent from the Security Trustee. Additionally, as a result of provisions within the CTA, the Directors do not have the power to allot or repurchase the Company's shares. The Company is wholly owned by Anglian Water Services Overseas Holdings Limited which owns all 10 million of the issued ordinary £1 shares in the capital of the Company.

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.

Under the CTA 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 which 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 water recycling 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
- Providing health and safety leadership and ensuring Board decisions reflect the goal of no accidents and no harm to people.

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. A list of matters reserved to the Board appears on the Company's website. This document also shows which decisions are reserved to the Board of Anglian Water Group Limited. Matters delegated to management are set out in a Scheme of Delegation. Typically, these matters comprise financial approvals at levels that are not considered by the Board to be material as well as routine operational decisions and minor regulatory approvals.

### **Board membership**

The directors who held office during the year and up to the date of signing the financial statements were as follows:

#### **Sir Adrian Montague**

(Chairman, Non-Executive)

#### **Peter Simpson**

(AWS Managing Director and AWG Chief Executive Officer)

#### **Scott Longhurst**

(Managing Director, Finance and Non-Regulated Business)

#### **Chris Newsome**

(Director of Asset Management)

#### **Jean Spencer**

(Director of Regulation)

#### **Christopher Garnett**

(Independent Non-Executive Director)

#### **Robert Napier**

(Independent Non-Executive Director)

#### **John Watkinson**

(Independent Non-Executive Director)

#### **Paul Whittaker**

(Independent Non-Executive Director, appointed 14 October 2013)

#### **Andrew Cox**

(Non-Executive Director, appointed 1 April 2014)

#### **Andreas Köttering**

(Non-Executive Director, appointed 1 April 2014)

#### **Niall Mills**

(Non-Executive Director, appointed 1 April 2014)

#### **Christian Seymour**

(Non-Executive Director, appointed 1 April 2014)

## CORPORATE GOVERNANCE REPORT

At 31 March 2014, in addition to the Chairman, Sir Adrian Montague, there were four Executive Directors and four Independent Non-Executive Directors. There are currently 13 Directors on the Board, eight of whom served throughout the year. Paul Whittaker was appointed as an additional Independent Non-Executive Director on 14 October 2013. On 1 April 2014, Andrew Cox, Andreas Köttering, Niall Mills and Christian Seymour were appointed additional Non-Executive Directors representing the ultimate owners of the Company.

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 the composition of the Board 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 85. The Board is currently in the process of recruiting an additional Independent Non-Executive Director.

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 Independent 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 12 years, Robert Napier is not considered to be independent for the purposes of the Code. However, the Board considered the independence of all its Non-Executive Directors at its meeting on 5 February 2014 and confirmed that Robert Napier 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 judgment 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.

During the year the Chairman has held a number of meetings with the Non-Executive Directors without the Executive Directors present.

On 8 November 2013 Robert Napier was appointed the Senior Independent Non-Executive Director. Prior to that all Directors had regular access to the shareholders' representatives via the AWG Strategy Committee (of which all Directors of the Company were members). The AWG Strategy Committee was disbanded on 1 April 2014, when investor representative Non-Executive Directors were appointed to the Board of the Company.

All Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of these can be found on the Company's website.

Where Directors have concerns that cannot be resolved about the running of the Company or a proposed action, these would be recorded in the Board minutes, but no such concerns have been raised.



### **Roles and responsibilities**

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board on 8 November 2013) appears on the Company's website. The Chairman's commitment to the Company and to its ultimate parent Company is usually 6-8 days per month. His other significant commitments are disclosed in his biography on page 85. 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 Nomination Committee and, prior to the formation of the Nomination Committee, were 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 2014 there were 18 scheduled meetings of the Board. In addition, the Board held five scheduled meetings between 31 March 2014 and the date of signature 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, Nomination

Committee and Remuneration Committees also provided reports on matters discussed by that Committee since the previous Board meeting.

In addition to its routine business, during the year ended 31 March 2014 the Board spent many hours discussing, challenging and reviewing the Company's AMP6 Business Plan, which was submitted to Ofwat on 29 November 2013.

### **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.

On 30 July 2013 the Board established a Remuneration Committee to oversee and debate issues of remuneration policy outside main Board meetings.

On 30 July 2013 the Board also established a Nomination Committee to lead the process for appointments to the Board and to make recommendations to the Board for approval.

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 97 to 101.

### **Nomination Committee**

Details of the terms of reference of the Nomination Committee, its membership and activities during the year are contained in the Nomination Committee Report on pages 102 to 103. Prior to the establishment of the Committee on 30 July 2013, all matters relating to the appointment of additional Directors were considered by the full Board of the Company.

## CORPORATE GOVERNANCE REPORT

### Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the Company's remuneration policy and the remuneration paid to Directors during the year are contained in the Remuneration Committee report on pages 104 to 141. Prior to the establishment of the Remuneration Committee on 30 July 2013, all matters relating to the remuneration of the Company's Directors and senior managers were considered by the Remuneration Committee of Anglian Water Group Limited, which also dealt with remuneration matters for the senior managers of other group companies. The AWG Remuneration Committee was disbanded on 1 April 2014.

### AWG Strategy Committee

The AWG Board established a Strategy Committee, which also assisted the Board of AWS in the furtherance of its duties. The function of this Committee was to discuss strategic issues of common interest to the members of both Boards. The AWG Strategy Committee was not responsible for making decisions in relation to the strategy of the Company. All decisions relating to the strategy of the Company were taken by the Board. Membership of this Committee comprised all members of the Board of AWG and all members of the Board of AWS. Following the appointment of additional Non-Executive Directors to the Board of AWS, the AWG Strategy Committee was disbanded on 1 April 2014.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Sir Adrian Montague (Chairman)**	17/18	3/3	5/5	2/2
Christopher Garnett	17/18	3/3	5/5	
Scott Longhurst*	18/18	3/3	5/5	2/2
Robert Napier	17/18	3/3	5/5	2/2
Chris Newsome	18/18			
Peter Simpson*	18/18	3/3	5/5	2/2
Jean Spencer	16/18			
John Watkinson	17/18	3/3	4/5	2/2
Paul Whittaker (since 14 October 2013)	8/9			

\* not a member of the Committees, but attended by invitation

\*\* not a member of the Audit Committee but attended by invitation

### Board and Committee attendance

18 scheduled meetings of the Board were held during the year. The attendance by individual Directors at scheduled meetings of the Board and other Committees during the year ended 31 March 2014 is shown in the table above.

During the year, 15 other Board meetings were held, some at short notice. Of those meetings, seven dealt with borrowing and facilities, bond issues or buybacks and the prospectus; six dealt with interim dividends, four of which arose from

routine quarterly interim dividends linked to the AWSF Group's finance structure; one dealt with an Ofcom Certificate; and one dealt with the formalities surrounding appointment of an additional Independent Non-Executive Director.

Since 31 March 2014, seven further Board meetings have been held, five of which all Directors attended save John Watkinson who was unable to attend on 15 April 2014 and 1 May 2014.

Two further meetings of the Remuneration Committee were held on 2 April and 23 May 2014 and a meeting of the Audit Committee was held on 22 May 2014. All members attended these meetings.

#### **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 Company
- 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. The Chairman periodically reviews the training needs of all directors and in the course of the year the Company Secretary circulated details of externally provided training courses to all directors. The Company offered to fund participation on these courses. All Board Members are entitled to receive, at the Company's expense, independent professional advice on any matters relating to their responsibilities as Directors.

New Directors receive a full background information pack which includes, among other things, Business Plans, Annual Report and Accounts, briefing note and board paper on directors' duties, conflicts and declarations of interest, Memorandum and Articles, Group structure chart and Love Every Drop Manifesto.

#### **Board evaluation**

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. The Board considered the use of an external facilitator to assist with the conduct of the review but concluded that an effective review could be conducted without external support. In March 2014 members of the Board were therefore invited to evaluate the performance of the Board and that of its Audit, Nomination and Remuneration Committees. The evaluation took the form of an online questionnaire followed by discussions with Board members. Board and Committee members were invited to

## CORPORATE GOVERNANCE REPORT

provide comments on each key area of Board and Committee activity. Comments on the performance of the Chairman were provided to the Senior Independent Non-Executive Director for review who then discussed the feedback with the Chairman before reporting to the Board. No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the review and the Chairman confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board. When it met on 23 May 2014, the Board considered a number of potential areas for improvement which had been highlighted as a result of the Board evaluation process. Most of the recommendations were administrative in nature (for example, the recommendation that greater use could be made of executive summaries in Board papers). The Board also supported holding more meetings at operational sites. The main topic for discussion related to the subject of the Board's policy in relation to diversity. As a result of the discussion on 23 May 2014, the Board's commitment to increasing gender diversity among Board members was confirmed and the Board explored how best to improve the prospects for success in the short to medium term.

### Relations with shareholders

In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholder, while having due regard to the interests of other stakeholders in the Group including but not limited to customers, employees and suppliers.

The Company maintains a website at [www.anglianwater.co.uk](http://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 Audit Committee has assisted the Board in formally reviewing the operation and effectiveness of the Group's system of internal controls and risk management 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 2014 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
- 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 2014. No significant failings or weaknesses were identified from this review
- A review by an independent assurance provider of the information that Ofwat requires us to publish and other key corporate data.

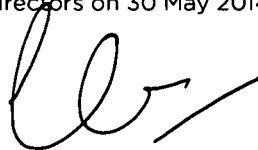
## CORPORATE GOVERNANCE REPORT

### Corporate governance statement

As noted above, the Company has elected to comply with the Code on a voluntary basis. The Board confirms that it has complied with the Code throughout the year under review save in the following respects:

- B.1.1. It is acknowledged that Robert Napier has served on the AWS Board for more than nine years. However, Robert Napier continues to undertake a variety of other roles (including chairing the HCA) which provide him with a range of experience and perspectives such that he is able to bring an independent approach to the AWS Board. His knowledge of the water sector is of considerable value to the Board. Robert Napier continues to provide constructive challenge to management. Robert Napier's independence was formally considered by the Board at its meeting on 5 February 2014 and the Board confirmed that he remains independent in judgment and character
- B.1.2. As at 31 March 2014 (and following the appointment of Paul Whittaker on 14 October 2013), there were equal numbers of Independent Non-Executive Directors and Executive Directors together with a Chairman who was independent on appointment. Prior to Paul Whittaker's appointment, there were more Executive Directors than Independent Non-Executive Directors
- B.2.1. The Company's Nomination Committee was formed on 30 July 2013. During the period from 30 July 2013 to 31 March 2014, the majority of Committee members consisted of Independent Non-Executive Directors
- B.2.3. The Chairman's appointment is not for a fixed term. However, he has indicated that he intends to stand down from the Board no later than 31 March 2015
- B.6.2. While a formal and rigorous evaluation of the performance of the Board, its Committees and Directors was undertaken, the Board has decided that it was not necessary to use the services of an external facilitator as it is not a FTSE 350 company
- D.2.1. The Company's Remuneration Committee was formed on 30 July 2013. During the period from 30 July 2013 to 31 March 2014, the majority of Committee members consisted of Independent Non-Executive Directors. The Committee was chaired by the Chairman of the Board until 31 March 2014. However, the Chairman resigned from the Committee on 1 April 2014
- E.2. As Anglian Water Services is a company in private ownership, it does not consider that it is necessary to hold an AGM. The individual performance of Directors is appraised annually and the contracts of Directors (both Executive and Non-Executive) allow for termination in circumstances where performance is unsatisfactory.

This report was approved by the Board of Directors on 30 May 2014.



**Claire Russell**  
Joint Company Secretary  
30 May 2014

# AUDIT COMMITTEE REPORT

## Role of the Committee

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes. The Committee's primary functions are to:

- Monitor the integrity of the financial statements, including significant financial reporting issues and judgements which 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.

The terms of reference of the Audit Committee are available on the Company's website at: [www.anglianwater.co.uk/about-us/terms-of-reference.aspx](http://www.anglianwater.co.uk/about-us/terms-of-reference.aspx)

## Membership and attendance

The Audit Committee comprises three of the four independent Non-Executive Directors (Christopher Garnett, John Watkinson and Robert Napier) and is chaired by Robert Napier. Robert Napier was formerly Financial Director of Redland Plc and has prior audit committee experience. Robert 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 and Non-Regulated Business, Peter Simpson, Managing Director AWS and Group Chief Executive Officer 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 three times during the year ending 31 March 2014 and conducted the following business, the results of which were fully reported to the AWS Board:

## Meeting dates and main activities

### 22 May 2013

- Reviewed the Preliminary results and draft Annual Report and Accounts for the financial year ending 31 March 2013 and the going concern statement
- Reviewed key issues and areas of judgement in relation to the 2013 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
- Considered the AWG risk register
- 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.

## AUDIT COMMITTEE REPORT

### 25 November 2013

- Reviewed the interim results, accounts and draft press release
- Considered reports by the external auditor on its review of the Interim results
- Reviewed reports on material Litigation and the Risk Register
- Received the internal audit report
- Considered the audit strategy for the 2014 financial year including the new requirements of the UK Corporate Governance Code 2012
- Met with both internal audit and the external auditor without management being present
- Considered the AWG risk register.

### 26 February 2014

- Reviewed the Internal Audit Plan for 2014/15
- Reviewed the Internal Auditor's Audit Charter
- Considered the adoption of IFRS
- Considered compliance with the UK Corporate Governance Code
- Received the external auditor's report on the internal control environment.

### A further meeting of the Committee was held on 22 May 2014

- Reviewed the Preliminary results and draft Annual Report and Accounts for the financial year ending 31 March 2014 and the going concern statement
- Reviewed all key issues and areas of judgement in relation to the 2014 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

- Considered the AWG risk register
- 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
- Considered the extent to which the Company's external auditor remained independent
- Met with both internal audit and the external auditor without management being present.

### Risk management and internal control

The Audit Committee reviews the effectiveness of the company's risk management and internal control systems throughout the year to ensure its adequacy. This is achieved through a number of activities as noted below:

- Risks are managed 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 regularly reviewed by the AWS Management Board and the Risk and Compliance Monitoring Committee. In addition, the Audit Committee formally reviews the top-tier risk register at least twice a year
- The Audit Committee reviews and approves Internal Audit's risk-based internal audit programme each year, with regular meetings to reprioritise audit assignments from time to time, to review the auditors' recommendations and to monitor progress in implementing those recommendations
- The external auditors report annually to the Audit Committee the findings of their review of the internal control environment. All control improvement recommendations are followed up at subsequent audits and reported to the Audit Committee for monitoring purposes.



Annually, each member of the management board is required to review and self-certify the adequacy of the internal control for their area of the business. The results of this review are collated by internal audit and presented to the Audit Committee.

#### **Whistleblowing programme**

The group has a whistleblowing policy and programme in all of its operations whereby employees can, in confidence, report on matters where they feel a malpractice is taking place, or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment.

The 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, the Human Resources Director, Managing Director, the 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 auditors' 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 6 to the Financial Statements on page 160. The non-audit fees in the year to 31 March 2014 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 which 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 2013/14, 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 which 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.

The Audit Committee actively contributes to the development of the annual internal audit plan, and regularly monitors whether internal audit have delivered their reports in accordance with the agreed plan and to the expected quality. On this basis the Audit Committee considers the internal audit process to be effective.

## AUDIT COMMITTEE REPORT

### Independence of external auditors

The effectiveness of external audit process is principally measured by the quality and timeliness of their annual reporting to the Audit Committee. In addition, the Chairman of the Audit Committee meets annually with a senior PwC partner, independent of the audit team, to discuss performance and effectiveness issues.

To assess PwC's ongoing independence and objectivity in the audit process the Audit Committee also reviews annually an overview of and the value of all non-audit related work conducted by PwC on behalf of the company. In addition, any non-audit services conducted by PwC require pre-approval by the Chairman of the Audit Committee and must be robustly justified.

PwC has been the Company's auditor since 1989. To ensure the auditors' 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 retendering exercise. The Committee considers the relationship the Company has with PwC annually and for the year ended 31 March 2014, the Committee was satisfied with the performance, objectivity and independence of PwC as the external auditors. The auditors, PwC, have 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 operates effectively.

The Audit Committee consider the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Significant issues in relation to the financial statements

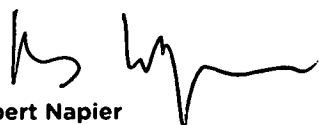
The Audit Committee considers a range of significant issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management have to make in preparing the financial statements, and as such they are presented to the Audit Committee in the form of a report prepared by the external auditors, PwC. For the year ended 31 March 2014 the Committee considered the following significant issues:

- Going concern – the Committee reviewed the evidence that supports the assumption that the accounts can be prepared on a going concern basis and agreed that it was appropriate to make the statement in the Directors' Report that the company is a going concern. This included review of the Group's debt maturity profile, hedging activities and financial instruments and its exposure to interest rate risks. In addition the actual and forecast cash flows each month alongside the available cash and facilities was considered
- Measured income accrual – the Committee reviewed the methodology and approved the estimate for measured income for the year ended 31 March 2014. The analysis of the actual outturn compared to the estimated accrual at 31 March 2013 highlighted an over accrual which was discussed by the Committee in detail. The external auditors' findings in relation to management's calculation of the measured income accrual which highlighted the significant judgements and estimates and the basis for the management's conclusions were discussed. The Audit Committee supported management's judgement and it was agreed that the accrual recognised was an appropriate best estimate
- Bad debt provision – the Committee reviewed and agreed the assumptions underpinning the provision for bad debts and examined how this is consistent with recent debt recovery experience

- Provisions - the Committee was informed of any significant legal claims against the company and whether the accounting treatments and disclosures were appropriate, and the amount of provisions held for tax liabilities which were still subject to finalisation with HMRC
- Pensions - the underlying assumptions used to evaluate the pension deficit were reviewed and considered to be suitable
- Covenant compliance - the Committee reviewed the Company's ongoing compliance with its debt-related covenants and concluded that the Company complied with its covenants. Compliance with the Group's CTA covenants is monitored monthly by management and sensitivity analyses are periodically applied to forecasts to assess their impact on covenants. At 31 March 2014 there was significant headroom between the Group's financial position and its covenants; it is expected that such covenants will continue to be complied with for the foreseeable future
- Litigation - the Committee reviewed the Legal Director's report on outstanding litigation.

Further details of the above accounting judgements and estimates are set out in accounting policy note 1 in the financial statements on page 155.

This report was approved by the Board of Directors on 30 May 2014.



**Robert Napier**  
Chairman of the Audit Committee  
30 May 2014

# NOMINATION COMMITTEE REPORT

## Role of the Committee

The Nomination Committee was formed on 30 July 2013 as part of the Company's ongoing strengthening of corporate governance. The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. Prior to the formation of the Committee, these matters were dealt with by the full Board. The duties of the Nomination Committee include the following:

- Regularly reviewing the structure, size and composition of the Board, and making recommendations to the Board with regard to any changes
- Giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in future
- Keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- Taking responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board
- Making recommendations to the Board concerning succession plans for both Executive and Non-Executive Directors.

The terms of reference of the Nomination Committee are available on the Company's website at: [www.anglianwater.co.uk/about-us/terms-of-reference.aspx](http://www.anglianwater.co.uk/about-us/terms-of-reference.aspx)

## Membership and attendance

From 30 July 2013 to 31 March 2014, the Nomination Committee comprised Sir Adrian Montague (Chairman), Robert Napier, Christopher Garnett and John Watkinson.

From 1 April 2014 and as at the date of this report, the Nomination Committee comprises all four of the Independent Non-Executive Directors and the four additional Non-Executive Directors and is chaired by Robert Napier. The Board intends to appoint a further Independent Non-Executive Director to the Committee following the completion of the recruitment exercise which is currently in train. Only members of the Committee have the right to attend Committee meetings. However, the Committee invited the Chairman, Scott Longhurst, Managing Director of Finance and Non-Regulated Business, and Peter Simpson, Managing Director Anglian Water Services (AWS) and CEO of Anglian Water Group (AWG) to attend all meetings to date. The Company Secretary is Secretary to the Nomination Committee.

## Meeting frequency and main activities in the year

The Nomination Committee was constituted on 30 July 2013 and met five times during the year ending 31 March 2014. During the year, the Committee conducted a thorough search and selection process, carried out with the assistance of The Inzito Partnership (an executive search firm specialising in senior appointments, which is not connected with the Company), to identify a suitable candidate for the post of an additional Independent Non-Executive Director. After evaluation of the balance of skills, experience, independence and knowledge on the Board, on 23 May 2013, the Board agreed that an additional Independent Non-Executive Director with appropriate regulatory experience should be appointed to the Board. A description of the role and capabilities required was prepared, and the Committee reviewed a long-list of candidates on 30 July 2013 from which a shortlist was selected.

Following interviews with shortlisted candidates, the Committee recommended to the Board that it should appoint Paul Whittaker who was duly appointed on 14 October 2013. A search for a fifth Independent Non-Executive Director commenced in December 2013 again using The Inzito Partnership. A long-list of candidates was presented to the Committee on 4 February 2014. A shortlist of candidates was selected on 26 February 2014. Interviews of shortlisted candidates are ongoing.

During the year, the Committee commissioned a review of the Company's performance in relation to diversity. The findings of this review will be presented to the July meeting of the Committee and a diversity action plan will be agreed for implementation during 2014/15. The desirability of setting targets in relation to diversity will be debated further at the July meeting. However, at the current time the Committee has not set a specific female Board member quota. Appointments to the Board are based on the diversity of contribution and required competencies, irrespective of gender, age or any other personal characteristics.

The Company is similarly committed to appointing the best available person to any role within Anglian Water regardless of gender. A high-level breakdown of our male/female employee split across our business appears on page 27 of the Strategic Report.

During the course of the year, the Committee conducted the following business, the results of which were reported to the AWS Board:

## Meeting dates and main activities

### 30 July 2013

- Considered the appointment process and the list of candidates to produce a shortlist of candidates for the position of additional Independent Non-Executive Director.

### 1 October 2013

- Considered the final shortlist and agreed that the preferred candidate for the position of additional Independent Non-Executive Director was Paul Whittaker and that he should be offered the position
- Noted that Peter Simpson had been appointed CEO of the Group.

### 25 November 2013

- Considered the succession planning report produced by the HR Director and agreed future actions with regard to succession planning and diversity.

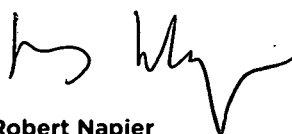
### 4 February 2014

- Considered the appointment process and the list of candidates to produce a shortlist of candidates for the position of additional Independent Non-Executive Director
- Reviewed the draft Board Diversity Policy produced by the HR Director and agreed this policy should be reviewed in the context of the Company's overall policy in respect of diversity.

### 26 February 2014

- Considered the shortlist of candidates for the position of additional Independent Non-Executive Director and agreed to interview certain shortlisted candidates.

This report was approved by the Board of Directors on 30 May 2014.



**Robert Napier**

Chairman of the Nomination Committee  
30 May 2014

# REMUNERATION REPORT

## 2014 Directors' Remuneration Report

### Annual Statement

I am pleased to present the report on Directors' remuneration, which sets out the remuneration policy for Anglian Water Services Limited (AWS), how it was applied in the financial year ended 31 March 2014, and the policy for 2014/15.

During 2013 the UK Government's Department for Business, Innovation & Skills (BIS) published the final text of the regulations concerning changes to the way in which Directors' remuneration is reported. Our economic regulator Ofwat also published best practice guidance on disclosure of Directors' pay and standards of performance. The Remuneration Committee welcomes these moves towards greater transparency and disclosure on executive remuneration, and in response we have included further detail, building on the additional information provided in last year's Report.

### Company performance in 2013/14

As already described earlier in the Report and Accounts, 2013/14 was another year of strong performance. Anglian Water has again been recognised as the top performing company for customer satisfaction in Ofwat's customer survey of all water and sewerage companies in England and Wales. The Company also delivered very good results on water quality, leakage and health and safety, and achieved stable serviceability across all four asset classes.

In assessing executive performance during 2013/14, the Board considers that the management team has provided very effective leadership through challenging times; this has included protecting customers from the impact of extreme weather conditions, which brought a coastal surge and flooding to many communities in our region, and managing the uncertainty associated with significant changes to the regulatory framework for AMP6.

### Remuneration outcomes in 2013/14

At the start of the year, the Board set targets 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.

In assessing performance against annual bonus targets, the Committee is satisfied that the Company outperformed the stretch target on four of the five financial measures, and exceeded base target on the fifth. On non-financial targets, the Company outperformed its stretch targets on two of the six measures, exceeded base targets on two other measures, and missed base targets on two. As a result of this performance, and the Remuneration Committee's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2013/14 were between 82 per cent and 91.7 per cent, of annual bonus potential.

On 31 March 2014, the performance period ended for long-term incentive awards made in 2011. These awards were based on performance from 1 April 2011 to 31 March 2014 against four performance conditions. In assessing the extent to which these performance conditions had been achieved, the Committee determined that the Company had outperformed the stretch target on three of the four measures, and had exceeded base target on the fourth. As a result of this sustained high performance over the three-year performance period, the percentage of base award vesting is between 96.2 per cent and 98.1 per cent.

Further details of these arrangements, including the bonus and the long-term incentive payments made to each Executive Director, are included in the Implementation Report, which starts on page 111.

Recognising the pressures on our customers from economic conditions and the need to keep bills affordable, in April 2013 the Company decided to

give no annual salary increase to employees. This policy also applied to the Executive Directors, and has assisted the Company's ability to forego the 2014 increase to customers' bills originally agreed with Ofwat.

#### **Other key decisions**

During the year, the Committee carried out a thorough review of Executive Director packages to ensure they remain appropriate against the market.

This review took into account benchmark data from a large number of other UK water companies and the wider utility sector. It also reflected the promotion of Peter Simpson to Group CEO.

As a result of this review, the following changes were approved by the Board:

#### **For Peter Simpson and Scott Longhurst, from 1 April 2014:**

- Bonus potential for achieving base performance was reduced from 75 per cent of base salary to 60 per cent
- Maximum annual bonus potential was increased from 100 per cent to 120 per cent of base salary, for achievement of stretch performance
- The weighting for annual bonus was adjusted to 70 per cent on company performance and 30 per cent on achievement against personal objectives (previously 50:50 for Peter Simpson and 60:40 for Scott Longhurst)
- Basic pay was increased by 2.5 per cent, consistent with the annual salary increase for the general workforce
- These changes will take effect from 1 April 2014
- Relevant benchmark data indicated that Peter Simpson's basic salary should be further increased to reflect his increased responsibilities following his promotion to Group CEO. However, Peter Simpson advised the Board that, in the light of the continuing recession and pressure on customers' bills, he wished to defer this increase until 1 April 2015.

#### **For Jean Spencer:**

- A salary increase from 1 January 2014 of £50,000 to £235,000 as an adjustment for market forces
- An increase in annual bonus potential from 50 per cent to 75 per cent for stretch performance, with effect from 1 April 2014.

#### **Chairman's fee**

With the appointment of Peter Simpson as Group CEO, the consequent change in management structures and the sale of the Morrison business, the responsibilities and duties of the Chairman are reduced. The Chairman therefore proposed and the Board agreed an adjustment to his fee from £400,000 to £300,000, with effect from 1 April 2014.



**Robert Napier**

Chairman of the Remuneration Committee  
30 May 2014

## REMUNERATION REPORT

### Directors' Remuneration Policy

**This part of the Directors' Remuneration Report sets out the remuneration policy for AWS for the year ended 31 March 2014, and any changes for the year ending 31 March 2015.**

#### The Remuneration Committee

The Remuneration Committee is a committee of the Board of Anglian Water Services Limited (AWS). The Committee has responsibility for making recommendations to the Board on remuneration policy and structure for the Executive Directors and senior management of AWS. The Committee has defined terms of reference, which are available on the Company's website.

#### Committee membership

Between April and July 2013, remuneration matters for AWS were determined by the AWG Remuneration Committee, chaired by Sir Adrian Montague, and comprising four AWG Directors (Cressida Hogg, Andre Bourbonnais, Christian Seymour and Niall Mills).

In response to the best practice guidance issued by Ofwat, the Company formed the AWS Remuneration Committee, which came into existence on 30 July 2013. The Committee has been chaired by Robert Napier, the Senior Independent Non-Executive Director, since 1 April 2014 and comprises four Non-Executive Directors of the Company – Niall Mills, Andreas Köttering, Christian Seymour and Andrew Cox, and three Independent Non-Executive Directors – Christopher Garnett, John Watkinson and Paul Whittaker. A fifth Independent Non-Executive Director will be appointed to the Committee shortly.

Only Committee members are entitled to attend meetings, but the Chairman, Sir Adrian Montague, the CEO Peter Simpson, the CFO Scott Longhurst, and the HR Director Kate Kelly 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 Board 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 relative 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.

The fees for Non-Executive Directors are reviewed by the Chairman, and any changes are approved by the Board. Under the Articles of Association of the Company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the Company. Non-Executive Directors do not vote on their own remuneration.

The Chairman's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chairman is not involved in setting his own remuneration.

For the Chairman and Non-Executive Directors, the Board'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 Chairman and the Non-Executive Directors do not participate in any of the Company's incentive schemes or pension schemes.



### **Discretion**

In accordance with UK regulations, areas where the remuneration policy provides for the exercise of discretion are identified in the report.

### **Policy on recruitment remuneration**

The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this Report. The Committee also recognises that where it is in the interests of the Company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances.

Accordingly the Committee will ensure that:

- The salary level of any new Director is competitive with the market and the peer group
- Variable remuneration will be awarded within the parameters in Table 2
- Where an individual is relocating to take up the role, the Company may provide one-off benefits such as reasonable relocation expenses.

Where an individual would be forfeiting valuable remuneration from their previous employer in order to join the Company, the Committee may structure the remuneration package so as to compensate the individual in whole or in part. The Committee would require reasonable evidence of the nature and value of any forfeited award and, to the extent practicable, would ensure any compensation was no more valuable than the forfeited award, and that it was subject to clawback in the event of early exit.

In making any decision on the remuneration package for a new recruit, the Committee would seek to balance company interests with the requirements of the new recruit, and would strive not to pay more than is necessary to achieve the recruitment.

### **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. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in Table 2. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Remuneration Committee. Currently, each participates in the annual bonus scheme and long-term incentive arrangements, which are described further in the relevant sections of this Report.

The service contracts for Executive Directors are available for inspection at the Company's registered office, on reasonable prior notice to the Company Secretary.

The Chairman and the other Non-Executive Directors have letters of appointment rather than service contracts. Copies of the Non-Executive Directors' letters of appointment are available at [www.anglianwater.co.uk/about-us/terms-of-appointment.aspx](http://www.anglianwater.co.uk/about-us/terms-of-appointment.aspx).

These 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 current policy is to retain the knowledge and experience of the Non-Executive Directors, subject to performance reviews.

## REMUNERATION REPORT

### Illustrations of application of the remuneration policy

The charts below show the total potential remuneration which could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2014/15.

In these charts:

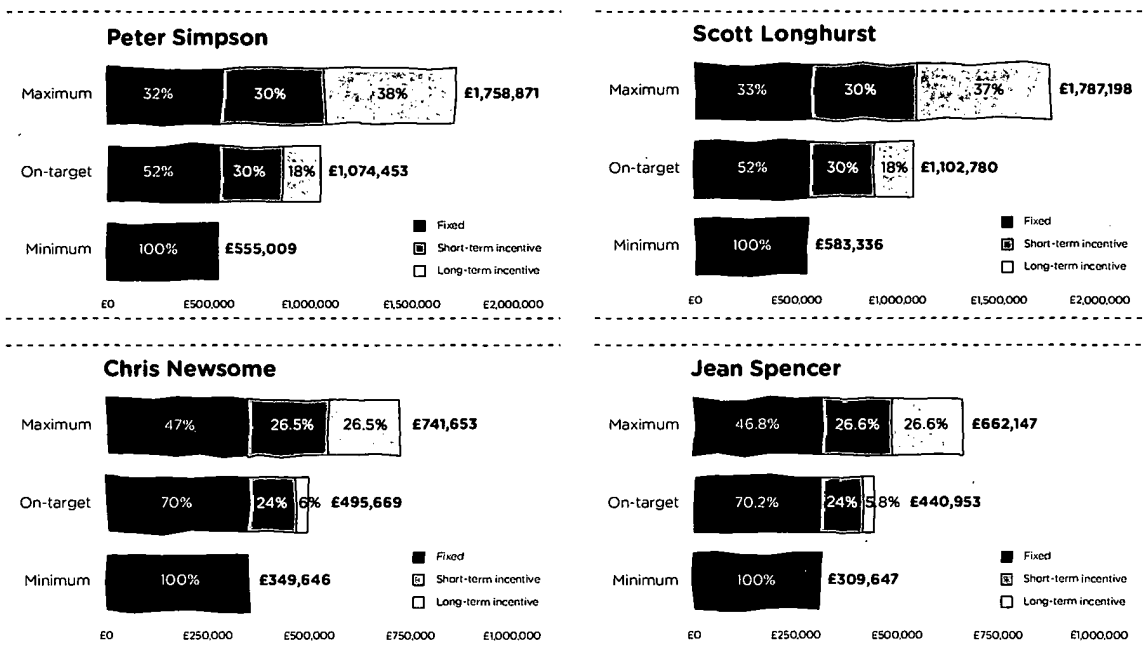
- Fixed remuneration is the minimum payable, and is made up of base pay for 2014/15 plus the value of pension and benefits
- The short-term incentive is the annual bonus for 2014/15. The Board has set threshold, base and stretch targets for financial and non-financial measures. The chart shows the remuneration the Director would receive if they and the Company performed in line with base and stretch targets

- The long-term incentive is the long-term incentive plan (LTIP). Rather than base or stretch performance levels, the design includes a range of minimum and maximum levels of performance which would qualify for a sliding scale of payments. The on-target bars in the charts below therefore show the percentage of base salary which could be earned for minimum (threshold) levels of performance.

Maximum performance would result in the maximum annual bonus payment, and 100 per cent of the LTIP award vesting. The LTIP award value illustrated below does not include the uplift to long-term incentive payments based on the average rate of return delivered over the performance period; this is a feature of the current scheme design, but, like share price growth, for which this is a proxy, is not certain.

The maximum bars in all the charts include LTIP awards granted in 2014 but which are due to vest in subsequent years; they do not include the LTIP awards granted in 2012 which will vest in May 2015.

**Table 1: Total remuneration which could be payable from AWS and AWG in 2014/15, depending on performance**



**Policy on payment for loss of office**

No Executive Director has any contractual rights to compensation for 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 take into account a range of factors including the Executive Director's obligation to mitigate their own loss.

Executive Directors have no entitlement to an annual bonus in respect of the financial year in which the termination occurs. The Committee would consider whether the Director should be eligible for an annual bonus, based on individual and company performance; any payment would normally be reduced to reflect the Director's actual period of service in that financial year.

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. Under these rules, an award is only automatically preserved in cases of death, incapacity, or redundancy within the meaning of the Employment Rights Act 1996. In all other circumstances, the Committee has absolute discretion to determine whether an award is preserved, and if so, the basis on which any payment is made. Where the Committee chose to preserve an award, any payment would normally be pro-rated to reflect how much of the performance period the individual had worked. Further reductions might also be applied if appropriate.

**External appointments**

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with their non-executive appointment.

**Consideration of employment conditions elsewhere in the Company**

In setting remuneration policy, the Committee 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 CEO compares with the average pay of employees.

**Employee consultation**

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.

**Use of remuneration comparison measurements**

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.

## REMUNERATION REPORT

### Consideration of shareholder views

Investor representatives sit alongside Independent Non-Executive Directors on the Remuneration Committee and are involved in monitoring the performance of the Executive Directors, and making recommendations to the Board on remuneration levels, payments and changes to reward packages. This 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.

### Disclosure of targets and actual performance

The new regulations require detailed information on performance measures and targets to be included in the Report unless the Directors consider that information to be commercially sensitive. The Directors are committed to transparent disclosure and will seek to provide the information wherever possible. This Report discloses the company performance measures for all short- and long-term incentive arrangements, but the Board has concluded that the current targets and actual performance for short- and long-term incentives are commercially sensitive and should not be disclosed at the commencement of any relevant performance period, as they believe this is not in the interests of the Company. The Board will review such targets at the end of each relevant performance period, and determine whether any target may be disclosed.

## Implementation Report

This part of the Directors' remuneration report sets out how the remuneration policy for AWS has been implemented for the year ended 31 March 2014, and any changes for the year ending 31 March 2015.

## Framework for remuneration for 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 2011 long-term incentive plan award, and achievement of stretch performance against targets and personal objectives for the annual bonus, the total annual remuneration (excluding pension benefits) is weighted at around 85 per cent performance-related and 15 per cent non-performance-related for Peter Simpson and Scott Longhurst.

For Chris Newsome and Jean Spencer it is around 60 per cent performance-related and 40 per cent non-performance-related.

**Table 2: Policy table - key elements of remuneration for the Executive Directors**

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2014/15
<b>Base salary</b>				
Help recruit and retain employees.	Reflects individual experience and role: Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by: <ul style="list-style-type: none"> <li>- Role, experience and performance</li> <li>- Average change in broader workforce salary</li> <li>- Total organisational salary budgets.</li> </ul> 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	Following a review of relevant external benchmarking data, the Board agreed Peter Simpson, Scott Longhurst and Chris Newsome should receive a 2.5% base salary increase from 1 April 2014. As Jean Spencer's base salary was increased in January 2014, no further increase is planned for 2014/15. Peter Simpson asked, and the Board agreed, that a further increase associated with his promotion to Group CEO during 2013, should be deferred until 1 April 2015.
<b>Benefits</b>				
Help recruit and retain employees.	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	For Peter Simpson the value of these benefits is equivalent to 4.6% of basic pay. For Scott Longhurst it is 4.5%. For Chris Newsome it is 10% and for Jean Spencer it is 8%.	n/a	No changes proposed.

## REMUNERATION REPORT

**Table 2: Policy table - key elements of remuneration for the Executive Directors (continued)**

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2014/15
<b>Annual bonus</b>				
Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives.	Company targets are set and reviewed annually, and summarised in a performance contract. Personal objectives relate to areas of the business over which the Executive has particular control. Bonus payment is determined by the Committee after the year end, based on performance against company targets and personal objectives.	<p>Peter Simpson's maximum annual bonus potential is 100% of base salary.</p> <p>50% of this is based on company targets and 50% on personal objectives. He receives up to 75% of base salary for achieving base targets, and up to 100% for achieving stretch targets.</p> <p>Scott Longhurst's maximum annual bonus potential is 100% of base salary. 60% of this is based on company targets (including the performance of the non-regulated businesses he manages), and 40% on personal objectives.</p> <p>He receives up to 75% of base salary for achieving base targets, and up to 100% for achieving stretch targets.</p> <p>Chris Newsome's maximum annual bonus potential is 75% of base salary.</p> <p>60% of this is based on company targets, and 40% on personal objectives. He receives up to 45% of base salary for achieving base targets, and up to 75% for achieving stretch targets.</p> <p>Jean Spencer's maximum annual bonus potential is 50% of base salary.</p> <p>60% of this is based on company targets, and 40% on personal objectives. She receives up to 30% of base salary for achieving base targets, and up to 50% for achieving stretch targets.</p>	Basket of financial and non-financial metrics, plus personal objectives. These are explained in more detail in the section on Annual Bonus later in this report.	<p>As a result of the review described in the Remuneration Committee Chairman's statement, the following changes will be made for 2014/15:</p> <p>Peter Simpson's and Scott Longhurst's annual bonus potential will be adjusted to 60% of base pay for achieving base targets and 120% for stretch targets.</p> <p>70% of Peter Simpson's annual bonus will be based on achievement of Company targets, and 30% on personal objectives.</p> <p>70% of Scott Longhurst's annual bonus will be based on achievement of Company targets (60% on AWS and 10% on the performance of the non-regulated businesses Scott Longhurst leads). 30% of his annual bonus will be based on achievement of personal objectives.</p> <p>Jean Spencer's annual bonus potential will be adjusted to 45% of base pay for base and 75% for stretch targets.</p> <p>Chris Newsome's annual bonus potential remains 45% for base and 75% for stretch targets.</p> <p>For both Jean Spencer and Chris Newsome, 70% of annual bonus will be based on company targets and 30% on personal objectives.</p> <p>The Remuneration Committee has also made changes to the company performance metrics for 2014/15. Further information is provided in Table 11.</p>

**Table 2: Policy table - key elements of remuneration for the Executive Directors (continued)**

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2014/15
<b>Long-term incentive plan (LTIP)</b>				
Incentivises Directors to deliver sustained long-term performance.	<p>Long-term incentive awards are granted each year in June and are paid out at the end of the performance period, 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 Peter Simpson and Scott Longhurst.</p> <p>75% of salary for Chris Newsome and Jean Spencer.</p> <p>Peter Simpson and Scott Longhurst also participate in an additional long-term incentive plan. The value of this is 50% of base salary.</p>	<p>Awards vest at the end of the three-year performance period, based on achievement of specified performance conditions.</p> <p>For the additional incentive plan for Peter Simpson and Scott Longhurst, awards vest in 2016 based on the achievement of four performance conditions.</p> <p>The performance conditions for both arrangements are shown under the long-term incentive plan (LTIP) section of this report.</p>	<p>LTIP 2014 performance conditions have been chosen to reflect the new regulatory framework which will be implemented part way through the performance period.</p>
<b>Pension</b>				
To attract and retain high-calibre individuals by providing good quality pension arrangements.	<p>AWS closed its defined benefit pension arrangement to new joiners in 2002, but Peter Simpson is still a member. Members pay different employee contributions depending on their accrual rate. Peter Simpson's accrual rate is 1/60th.</p> <p>AWS also operates a defined contribution pension arrangement.</p> <p>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.</p> <p>This is subject to tax and national insurance deductions.</p>	<p>Peter Simpson is a member of the defined benefit section of the Anglian Water Group Pension Scheme (AWGPS). 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 Peter Simpson's salary above the cap into the defined contribution section of the AWGPS.</p> <p>As a consequence of the further reductions in the annual and lifetime allowances, Peter Simpson ceased saving into the defined contribution pension arrangement from 1 April 2013.</p>	n/a	

## REMUNERATION REPORT

**Table 2: Policy table - key elements of remuneration for the Executive Directors (continued)**

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2014/15
<b>Pension (continued)</b>				
		<p>The contractual commitment in respect of Company contributions into Peter Simpson's pension is delivered through a cash payment, which is subject to tax and national insurance deductions.</p> <p>The Company has a contractual commitment to pay 25% of salary into a pension arrangement for Scott Longhurst, Chris Newsome and Jean Spencer.</p> <p>To avoid exceeding the lifetime allowance, Scott Longhurst ceased saving into the defined contribution arrangement during 2011/12. Chris Newsome ceased saving from 1 January 2014, and Jean Spencer from 1 February 2014.</p> <p>The contractual commitment in respect of company contributions to pension for Scott Longhurst, Chris Newsome and Jean Spencer is delivered through a cash payment, which is subject to tax and national insurance deductions.</p> <p>Scott Longhurst, Chris Newsome and Jean Spencer remain covered for death benefits through the Scheme.</p>		



## Elements of Directors' remuneration package as a percentage of salary

The tables below show the proportion of payments related to variable and long-term performance for 2012/13 and 2013/14. The design of the long-term incentive arrangements

included a range of minimum and maximum levels of performance which would qualify for a sliding scale of payments, rather than base or target performance levels. The tables therefore show the percentage of base salary which could be earned for minimum and maximum performance levels.

**Table 3: Peter Simpson**

Component of remuneration	2012/13 value (% of base pay)		2013/14 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits <sup>1</sup>	4.4	4.4	4.6	4.6
Pension <sup>2</sup>	14.2	14.2	12.5	12.5
Bonus	75.0	100.0	75.0	100.0
Long-term incentive plan (LTIP)	17.1	100.0	14.0	100.0
<b>Total as % of base pay</b>	<b>210.7</b>	<b>318.6</b>	<b>206.1</b>	<b>317.1</b>
Variable pay - bonus and LTIP (as % of base pay)	43.7	62.8	43.2	63.1
Long-term pay - LTIP and pension (as % of base pay)	14.9	35.8	12.9	35.5

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

<sup>2</sup> Pension costs for Peter Simpson included the Company's contribution to his defined benefit pension arrangement, which is based on 12.5% of his pensionable salary up to the current cap of £132,840, together with a cash payment in lieu of the Company's contractual commitment to pay 15% of his salary above the cap into his defined contribution pension arrangement. As explained in Table 2, Peter Simpson ceased saving into the defined contribution arrangement from 1 April 2013. The table above shows a reduction in the value of the pension benefit Peter Simpson has received since making the change; this is because the cash payment in lieu of Company pension contributions is subject to tax deductions and national insurance contributions, whereas payments directly into the Scheme are not subject to these deductions.

## REMUNERATION REPORT

**Table 3 (continued): Scott Longhurst**

Component of remuneration	2012/13 value (% of base pay)		2013/14 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits <sup>1</sup>	4.3	4.3	4.5	4.5
Pension	25.0	25.0	25.0	25.0
Bonus	75.0	100.0	75.0	100.0
Long-term incentive plan (LTIP)	17.1	100.0	14.0	100.0
<b>Total as % of base pay</b>	<b>221.1</b>	<b>329.3</b>	<b>218.5</b>	<b>329.5</b>
Variable pay - bonus and LTIP (as % of base pay)	41.6	60.7	40.7	60.7
Long-term pay - LTIP and pension (as % of base pay)	19.0	38.0	17.8	37.9

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

**Table 3 (continued): Chris Newsome**

Component of remuneration	2012/13 value (% of base pay)		2013/14 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits <sup>1</sup>	9.6	9.6	10.2	10.2
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	24.0	75.0	19.5	75.0
<b>Total as % of base pay</b>	<b>103.6</b>	<b>284.6</b>	<b>199.8</b>	<b>285.2</b>
Variable pay - bonus and LTIP (as % of base pay)	33.9	52.9	32.3	52.6
Long-term pay - LTIP and pension (as % of base pay)	24.1	35.1	22.3	35.1

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

**Table 3 (continued): Jean Spencer**

Component of remuneration	2012/13 value (% of base pay)		2013/14 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits <sup>1</sup>	8.2	8.2	8.1	8.1
Pension	25.0	25.0	25.0	25.0
Bonus	30.0	50.0	30.0	50.0
Long-term incentive plan (LTIP)	24.0	75.0	19.5	75.0
<b>Total as % of base pay</b>	<b>187.2</b>	<b>258.2</b>	<b>182.6</b>	<b>258.1</b>
Variable pay - bonus and LTIP (as % of base pay)	28.8	48.4	27.1	48.4
Long-term pay - LTIP and pension (as % of base pay)	26.2	38.7	24.4	38.8

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.  
There is no change to these figures as a consequence of Jean Spencer's salary increase from 1 January 2014.

## Outcomes for 2013/14

### Single total remuneration figure (audited)

Table 4: Total Executive Directors' remuneration

	Total paid by Anglian Water Services											
	Base pay		Taxable benefits <sup>1</sup>		Pension including cash in lieu <sup>2</sup>		Annual bonus <sup>3</sup>		LTIP <sup>4</sup>		Total AWS <sup>5</sup>	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
Scott Longhurst	£217,500	£261,000	£9,383	£11,850	£57,420	£68,904	£203,221	£239,484	£0	£0	£487,524	£581,238
Chris Newsome	£254,964	£254,964	£24,592	£26,085	£63,982	£63,035	£158,721	£157,635	£188,054	£195,536	£690,313	£697,255
Peter Simpson	£391,500	£304,500	£17,272	£13,910	£53,438 <sup>6</sup>	£61,691 <sup>6</sup>	£375,253	£269,224	£476,546	£488,185	£1,314,009	£1,137,509
Jean Spencer	£184,755	£197,316	£15,139	£15,897	£48,719	£51,522	£86,669	£80,791	£143,085	£148,778	£478,367	£494,304
<b>Total Executive Directors<sup>7</sup></b>	<b>£1,048,719</b>	<b>£1,017,780</b>	<b>£66,386</b>	<b>£67,742</b>	<b>£223,559</b>	<b>£245,152</b>	<b>£823,864</b>	<b>£747,134</b>	<b>£807,685</b>	<b>£832,499</b>	<b>£2,970,213</b>	<b>£2,910,306</b>

	Total paid by other parts of the AWG Group											
	Base pay		Taxable benefits <sup>1</sup>		Pension including cash in lieu <sup>2</sup>		Annual bonus <sup>3</sup>		LTIP <sup>4</sup>		Total AWG Group <sup>5</sup>	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
Scott Longhurst	£217,500	£174,000	£9,383	£7,900	£57,420	£45,936	£203,221	£159,656	£960,625	£488,185	£1,448,149	£875,677
Chris Newsome	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Peter Simpson	£43,500	£130,500	£1,919	£5,961	£5,938	£26,439	£41,695	£115,382	£0	£0	£93,051	£278,282
Jean Spencer	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
<b>Total Executive Directors<sup>7</sup></b>	<b>£261,000</b>	<b>£304,500</b>	<b>£11,302</b>	<b>£13,861</b>	<b>£63,358</b>	<b>£72,375</b>	<b>£244,916</b>	<b>£275,038</b>	<b>£960,625</b>	<b>£488,185</b>	<b>£1,541,200</b>	<b>£1,153,959</b>

## Outcomes for 2013/14 Single total remuneration figure (audited)

Table 4: Total Executive Directors' remuneration (continued)

	Total paid by all AWG companies											
	Base pay		Taxable benefits <sup>1</sup>		Pension including cash in lieu <sup>2</sup>		Annual bonus <sup>3</sup>		LTIP <sup>4</sup>		Total paid by all AWG companies	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
Scott Longhurst	£435,000	£435,000	£18,766	£19,750	£114,840	£114,840	£406,442	£399,141	£960,625	£488,185	£1,935,673	£1,456,916
Chris Newsome	£254,964	£254,964	£24,592	£26,085	£63,982	£63,035	£158,721	£157,635	£188,054	£195,536	£690,313	£697,255
Peter Simpson	£435,000	£435,000	£19,191	£19,871	£59,375	£88,130	£416,948	£384,605	£476,546	£488,185	£1,407,060	£1,415,791
Jean Spencer	£184,755	£197,316	£15,139	£15,897	£48,719	£51,522	£86,669	£80,791	£143,085	£148,778	£478,367	£494,304
<b>Total Executive Directors<sup>7</sup></b>	<b>£1,309,719</b>	<b>£1,322,280</b>	<b>£77,688</b>	<b>£81,603</b>	<b>£286,916</b>	<b>£317,524</b>	<b>£1,068,780</b>	<b>£1,022,172</b>	<b>£1,768,310</b>	<b>£1,320,684</b>	<b>£4,511,413</b>	<b>£4,064,266</b>

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

<sup>2</sup> Pension costs include Company contributions into Company pension arrangements, including any cash payments in lieu of contractual commitments.

<sup>3</sup> In addition to the above payments for 2013/14, the Executive Directors received a payment in respect of performance under the Service Incentive Mechanism (SIM) in 2012/13. The SIM has a qualitative part (the Company's score in Ofwat's customer satisfaction survey), and a quantitative part (the number of customer complaints and the level of customer contacts that indicate poor service, such as written complaints and telephone calls classed as unwanted). Companies' overall SIM scores, which include the quantitative part, had not been published when the 2013 accounts were finalised. In May 2013, 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. The results of the quantitative part of the SIM were published later in 2013, and showed that the Company had achieved its stretch target for the overall SIM metric for the 2012/13 year. The Remuneration Committee therefore approved an additional payment in accordance with the scheme design. This payment was made in June 2014.

<sup>4</sup> This long-term incentive payment relates to the three-year performance period ending in March 2014. It includes the uplift of the base award by the average rate of return delivered over the performance period, which is a feature of the scheme design.

<sup>5</sup> The table above reflects the change to cost allocations between AWS and AWG from 1 April 2013, agreed by the Board. This is explained further in the next section.

<sup>6</sup> The value of the increase in defined benefit accrual for Peter Simpson has been calculated using the methodology stated in the Large and Medium Sized Companies and Groups (Accounts and reports) (Amendment) Regulations 2013; this uses 20 times the increase in accrued pension for the year (less the contributions paid by the member), and September CPI inflation for the previous year. For 2012 the relevant rate was the September 2011 CPI, which was 5.2%. For 2013 the relevant rate was the September 2012 CPI, which was 2.2%.

<sup>7</sup> The 2012/13 total remuneration figures have been recalculated and restated to comply with the new regulations on Directors' remuneration.

## REMUNERATION REPORT

### Cost allocations

The remuneration costs of Peter Simpson and Scott Longhurst are allocated between AWS and other AWG Group companies based on the companies to which qualifying services are provided.

With the promotion of Peter Simpson to Group CEO during 2013, a greater proportion of his time has been spent on group-wide matters. Consequently there has been a reduction from 90 per cent to 70 per cent in the allocation of his basic salary, benefits, pension and annual bonus costs charged to the company. 66 per cent of his long-term incentives are charged to the Company.

During 2013/14, Scott Longhurst's role included responsibility for corporate activities beyond the water company, including responsibility for our remaining international and property businesses.

As indicated in last year's report, with the sale of Morrison Facilities Services Ltd in 2012, a greater proportion of Scott Longhurst's time is now being spent on AWS business. This has led to an increase from 50 per cent to 60 per cent in the allocation of Scott Longhurst's basic salary, benefits, pension and annual bonus costs which are charged to the Company. 100 per cent of his long-term incentive arrangements are paid for by AWG.

All the remuneration costs of Chris Newsome and Jean Spencer are paid by the Company.

### Percentage change in CEO remuneration

Table 5 shows the percentage change in the remuneration of the director undertaking the role of CEO over the past five financial years, in accordance with the disclosures required under UK regulations.

Table 5

	Peter Simpson 2013/14	Peter Simpson 2012/13	Peter Simpson 2011/12	Peter Simpson 2010/11	Peter Simpson 2009/10	Jonson Cox 2009/10
<b>Total remuneration of CEO £</b>	<b>1,415,791</b>	<b>1,407,060</b>	<b>1,168,121</b>	<b>1,090,583</b>	<b>119,642</b>	<b>8,101,226</b>
% change in remuneration of CEO	0.6	20.5	7.1	(86.7)	-	-
Annual bonus paid as a % of maximum potential	90.42	95.9	96.4	93.8	95.5	98.2
LTIP paid as a % of maximum potential	98.1	97.3	90.0	57.0	97.5	100.0

Jonson Cox stepped down as CEO of the Anglian Water Group of companies on 29 January 2010. From that date, Peter Simpson became Managing Director of Anglian Water Services. The figures in the above table for 2009/10 reflect the proportion of time Jonson Cox and Peter Simpson were performing these roles and exclude amounts paid in respect of compensation for loss of office. In addition to his role as Managing Director of Anglian Water Services, Peter Simpson was appointed Group CEO in October 2013.

Peter Simpson's bonus payment for 2012/13 includes an additional payment in relation to SIM performance for 2012/13, which was approved by the Remuneration Committee in May 2013 and paid in June 2013.

The maximum potential payable under the LTIP is the maximum payable at 100% vesting, but excludes the uplift of the base award by the average rate of return delivered over the performance period which is a feature of the LTIP scheme design. The total remuneration of the CEO includes the uplift which was actually paid.

Jonson Cox's LTIP payment related to a long-term incentive award made under the AWG 2007 Executive Director Long Term Incentive Plan, and covered performance over a number of years.

### Percentage change in CEO remuneration compared with other employees

Table 6 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2012/13 to 2013/14. 'Other employees' are the employees of Anglian Water Services and Anglian Water Group Central Services, excluding the senior executives on the Management Board of Anglian Water Services. This group has been chosen because they are considered to be the most representative of the overall workforce.

**Table 6**

	% change in CEO remuneration 2013/14 vs 2012/13	% change in remuneration for other employees 2013/14 vs 2012/13
Base pay	0.0	0.4
Taxable benefits <sup>1</sup>	3.5	2.4
Annual bonus	(7.8)	26.3
Annual bonus including special outperformance bonus <sup>2</sup>	(7.8)	(51.1)

<sup>1</sup> The increase in taxable benefits relates to an increase of £680 for the cost of private fuel.

<sup>2</sup> Special bonuses for outperformance were paid for the 2012/13 and 2013/14 years. These are not part of our normal annual bonus arrangements and the CEO did not participate. The annual bonus for outperformance for full-time staff was £775 for 2012/13 and £250 for 2013/14.

### Relative importance of spend on pay

Table 7 sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2013 and 31 March 2014.

**Table 7**

	AWS		
	2013/14 £m	2012/13 £m	% change
Remuneration paid to employees <sup>1</sup>	156.2	155.3	0.6
Distribution to shareholders <sup>2</sup>	202.1	164.5	22.9
Capital investment <sup>3</sup>	435.6	502.9	(13.4)

<sup>1</sup> Includes pay, benefits, annual bonuses, long-term incentives and pension costs. Pension costs include the defined benefit and defined contribution arrangements. The cost of defined benefit is the annual service charge and does not include the deficit repair payments made by the Company.

<sup>2</sup> These are the dividends paid by AWS to the parent company. A proportion is used to pay interest on external third party debt and other Group obligations. AWS dividends exclude the intercompany dividends paid and retained within the AWS Financing Group.

<sup>3</sup> This is the cash spend on our capital investment programme to improve quality of service to customers and protect the environment. The reduction in spend between 2013 and 2014 reflects the planned profile of our capital programme over the AMP.

## REMUNERATION REPORT

### Base pay

When assessing the pay awards for each of the Executive Directors and senior managers, the Remuneration Committee considers the remuneration increase for employees throughout the Group. During the annual pay review in 2013, the Committee recommended to the Board that there should be no base pay increases for Executive Directors, consistent with the pay freeze for the general workforce.

In January 2014 Jean Spencer's basic pay was increased by £50,000 as an adjustment for market forces.

### Total pension entitlement

The defined benefit section of the Anglian Water Group Pension Scheme 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 Table 2, contributes up to a capped salary level.

The normal retirement age for the section of which Peter Simpson is a member is 65. If he retired early, his pension would be reduced on the same basis as would apply to members in the general workforce.

Details of the pension benefits which accrued during the year to 31 March 2014 are summarised below:

**Table 8 (Audited)**

	Accrued pension at 31 March 2014	Accrued pension at 31 March 2013 <sup>1</sup>	Increase in accrued pension
Peter Simpson	£59,484	£55,666	£3,818

<sup>1</sup> The accrued pension of £57,037 shown in the 2013 Report and Accounts was calculated incorrectly, based on the scheme's Permitted Maximum (under the Income and Corporation Taxes Act 1988) rather than Peter Simpson's actual capped pensionable pay, and therefore overstated the actual accrued pension. This has been corrected in this Report and Accounts.

### Annual bonus

#### Framework for 2013/14

The annual bonus is designed to incentivise performance against a basket of financial and non-financial company measures, and a set of personal objectives for each Executive Director. At the start of the year, the Committee chooses measures to reflect the key priorities of the business, and sets base and stretch targets for each measure. Wherever possible, quantifiable targets are used, which can be objectively assessed. The Committee has discretion to amend company and personal objectives during the year if they become inappropriate.

At year end, when assessing performance against company and personal objectives, the Committee considers any other results or factors it deems relevant, and applies its overall judgement in recommending final bonus outcomes to the Board. In doing so, the Committee also has discretion to adjust payment downwards for material performance issues on service, quality, financial performance, health and safety or reputation.

Table 9 shows the performance measures and weightings for the annual bonus for 2013/14.



**Table 9: Annual bonus plan for Executive Directors**

Performance measures	Weighting for 2013/14 (as % of base pay)			
	Peter Simpson	Scott Longhurst	Chris Newsome	Jean Spencer
<b>Financial measures</b>	<b>25.0</b>	<b>27.5</b>	<b>22.50</b>	<b>15.0</b>
Shareholder distribution capability	5.0	5.5	4.5	3.0
Operating costs	5.0	5.5	4.5	3.0
EBITDA	5.0	5.5	4.5	3.0
Operating cash flow	5.0	5.5	4.5	3.0
Net cash flow	5.0	5.5	4.5	3.0
<b>Non-financial measures</b>	<b>25.0</b>	<b>27.5</b>	<b>22.5</b>	<b>15.0</b>
Capital Delivery Index (CDI) <sup>1</sup>	7.5	8.25	6.75	4.5
Service Incentive Mechanism (SIM) <sup>2</sup>	7.5	8.25	6.75	4.5
% of water recycling treatment works failing numerical consents	2.0	2.2	1.8	1.2
Pollution incidents from combined sewer overflows, foul sewers and rising mains <sup>3</sup>	1.5	1.65	1.35	0.9
Internal flooding 'other causes' <sup>4</sup>	1.5	1.65	1.35	0.9
Number of water treatment works with coliform failures <sup>5</sup>	2.0	2.2	1.8	1.2
Number of properties impacted by unplanned interruptions to water supply > 12 hours	1.5	1.65	1.35	0.9
Acceptability of water to consumers per 1,000 population	1.5	1.65	1.35	0.9
<b>Property performance</b>	<b>0.0</b>	<b>5.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Personal objectives</b>	<b>50</b>	<b>40</b>	<b>30</b>	<b>20</b>
<b>Total as a % of base pay</b>	<b>100</b>	<b>100</b>	<b>75</b>	<b>50</b>

<sup>1</sup> The Capital Delivery Index is an aggregate index of four targets set by the Board, measuring efficient delivery of our capital programme.

<sup>2</sup> The Service Incentive Mechanism is described in Table 4, note 3.

The other non-financial measures are based on measures defined and monitored by our economic and quality regulators (Ofwat, the Environment Agency and the Drinking Water Inspectorate).

<sup>3</sup> This is the number of pollution incidents from these asset types for which the Company does not have Environment Agency consent, and which are defined as Category 1-3 under the Environment Agency's current classification system.

<sup>4</sup> This is the number of internal flooding incidents affecting customer properties due to causes other than overloaded sewers. This could include blockages, pumping station failures and sewer collapses.

<sup>5</sup> This is the number of water treatment works where sampling has detected a coliform in treated water before it reaches public supply.

The measures on acceptability of water to consumers and the percentage of water recycling centres failing numerical consents are explained in the next section.

## REMUNERATION REPORT

### Outcomes for 2013/14

The Company outperformed the stretch target on four of the five financial measures (shareholder distribution capability, control of operating costs, control of operating cash flow and net cash flow), and exceeded base target on the fifth measure, EBITDA.

The Service Incentive Mechanism (SIM) has two parts: on the qualitative (Ofwat customer survey) element, the Company has achieved first position amongst all water and sewerage companies in England and Wales. The results for the quantitative assessment will not be available from Ofwat until later in 2014. The strong qualitative result for 2013/14 should help the Company's overall ranking, but as the final result is not yet available, the Committee recommended to the Board that SIM performance should be rewarded based on achievement of the base target. Once the overall result is known, the Board may approve either an additional payment, if performance was higher than base target, or a clawback if performance was lower.

On other non-financial targets, the Company met the stretch target for the Capital Delivery Index, outperformed its stretch targets on two of the six operational measures, pollution incidents and unplanned supply interruptions, and exceeded base targets on two other measures, coliform failures and properties affected by internal flooding. Base targets were missed on the acceptability of water to consumers and the percentage of water recycling centres failing numerical consents.

The acceptability of water target relates to complaints about aesthetic factors such as air bubbles in the water. The Company's performance on this measure remains above the industry average.

Water recycling centres failing numerical consents measures the percentage of works which do not meet a defined standard for the quality of water returned to the environment after treatment during the calendar year. 17 of the 716 works covered by this target did not meet the standard in 2013, but overall company performance was within Ofwat's tolerance level for this measure.

The Remuneration Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 83.2 per cent.

The Committee also assessed each Director's performance against personal objectives.

**Table 10: The table below shows the resulting annual bonus payments to Executive Directors (audited)**

	Peter Simpson		Scott Longhurst		Chris Newsome		Jean Spencer <sup>1</sup>	
	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %
<b>Financial measure</b>								
Shareholder distribution capability	5.0	5.0	5.5	5.5	4.5	4.5	3.0	3.0
Operating cost	5.0	5.0	5.5	5.5	4.5	4.5	3.0	3.0
EBITDA	5.0	4.25	5.5	4.68	4.5	3.4	3.0	2.3
Operating cash flow	5.0	5.0	5.5	5.5	4.5	4.5	3.0	3.0
Net cash flow	5.0	5.0	5.5	5.5	4.5	4.5	3.0	3.0
<b>Non-financial measures</b>								
Capital Delivery Index (CDI)	7.5	7.5	8.25	8.25	6.8	6.8	4.5	4.5
Service Incentive Mechanism <sup>1</sup>	7.5	5.63	8.25	6.19	6.8	4.1	4.5	2.7
% of water recycling treatment works failing numerical consents	2.0	0.0	2.2	0.0	1.8	0.0	1.2	0.0
Pollution incidents from combined sewer overflows, foul sewers and rising mains	1.5	1.5	1.65	1.65	1.4	1.4	0.9	0.9
DG5 internal flooding 'other causes'	1.5	1.38	1.65	1.52	1.4	1.2	0.9	0.78
Number of water treatment works with coliform failures	2.0	1.66	2.2	1.83	1.8	1.3	1.2	0.87

## REMUNERATION REPORT

**Table 10: The table below shows the resulting annual bonus payments to Executive Directors (audited) (continued)**

	Peter Simpson		Scott Longhurst		Chris Newsome		Jean Spencer <sup>3</sup>	
	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %	Weight for 2013/14 (as % of base pay)	Outcome %
Number of properties impacted by unplanned interruptions to water supply > 12 hours	1.5	1.5	1.65	1.65	1.4	1.4	0.9	0.9
Acceptability of water to consumers per 1,000 population	1.5	0.0	1.65	0.0	1.4	0.0	0.9	0.0
<b>Property performance</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>5.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Personal objectives</b>	<b>50.0</b>	<b>45.0</b>	<b>40.0</b>	<b>39.0</b>	<b>30.0</b>	<b>27.5</b>	<b>20.0</b>	<b>16.0</b>
<b>Total % base pay</b>	<b>100.0</b>	<b>88.42</b>	<b>100.0</b>	<b>91.76</b>	<b>75.0</b>	<b>64.92</b>	<b>50.0</b>	<b>40.95</b>
<b>Base pay</b>	<b>£435,000</b>		<b>£435,000</b>		<b>£242,823</b>		<b>£197,316</b>	
<b>Bonus paid<sup>2</sup></b>	<b>£384,605</b>		<b>£399,141</b>		<b>£157,635</b>		<b>£80,791</b>	

<sup>1</sup> 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 2014 when the overall SIM scores are available for all water and sewerage 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.

<sup>2</sup> The assessments of company performance relating to the regulated business (financial and non-financial measures) for Peter Simpson and Scott Longhurst are based on a performance outcome of 87% rather than 83.2%. This is because their current arrangements provide for 75% of their bonus to be paid for achievement of base targets, and up to 100% for stretch performance. Other Executive Directors receive 60% of their bonus for achievement of base targets. Table 2 describes how these percentages will change for the 2014/15 year.

<sup>3</sup> As Jean Spencer received a salary increase on 1 January 2014, her bonus has been calculated based on nine months of her previous salary, and three months of her new salary.

## Changes for 2014/15

The Committee has reviewed the company performance metrics for the annual bonus for 2014/15 to ensure they reflect the priorities for the business over this period.

These are shown in Table 11. The Board has set minimum threshold, base and stretch targets for all measures. Performance below threshold results in no payment for that element.

**Table 11: Annual bonus 2014/15 - performance measures and weightings**

Performance measures	Weighting as % of base pay		
	Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
<b>Financial measures</b>	<b>42.0</b>	<b>36.0</b>	<b>26.25</b>
Shareholder distribution capability	8.0	7.2	5.25
Operating cost	8.0	7.2	5.25
EBITDA	8.0	7.2	5.25
Operating cash flow	8.0	7.2	5.25
Net cash flow	8.0	7.2	5.25
<b>Non-financial measures</b>	<b>42.0</b>	<b>36.0</b>	<b>26.25</b>
Capital Delivery Index (CDI)	12.6	10.8	7.88
Delivery on Time - Capital Maintenance Schemes <sup>1</sup>	8.4	7.2	5.25
Service Incentive Mechanism	12.6	10.8	7.88
Number of unconsented pollutions in Environment Agency Categories 1-3 <sup>2</sup>	4.2	3.6	2.63
Acceptability of water to consumers per 1,000 population	4.2	3.6	2.63
<b>Property performance</b>	<b>0.0</b>	<b>12.0</b>	<b>0.0</b>
<b>Personal objectives</b>	<b>36.0</b>	<b>36.0</b>	<b>22.5</b>
<b>Total % base pay</b>	<b>120.0</b>	<b>120.0</b>	<b>75.0</b>

<sup>1</sup> The new 'delivery on time' measure for capital maintenance schemes measures the percentage of schemes handed over to operations on their expected completion date, and aims to incentivise improvements in on-time delivery, a key focus for 2014/15.

<sup>2</sup> The new measure on pollutions covers a wider range of asset types than last year, which only included incidents on combined sewer overflows, foul sewers and rising mains; this new measure is a fundamental measure of our impact on the environment, and reflects the Company's determination to improve performance in this area. Category 1-3 pollutions refers to the Environment Agency's current classification system for pollution incidents.

The Capital Delivery Index is explained in the notes to Table 9.

The Service Incentive Mechanism has two parts: a qualitative part based on surveys of customer satisfaction, and a quantitative part (the number of customer complaints and the level of customer contacts which indicate poor service, such as written complaints and telephone calls classed as unwanted). In previous years, Ofwat has conducted customer satisfaction surveys and published the relative scores of all water and sewerage companies in England and Wales for both qualitative and quantitative measures. The Company's annual bonus targets have been set based on these relative scores. As Ofwat will not be carrying out surveys in 2014/15, it will not be possible to measure Anglian Water's relative position compared with other companies during 2014/15. The Board has therefore approved the continued use of an independent research company to carry out customer satisfaction surveys, and has set stretching targets for both qualitative and quantitative performance.

The measure on acceptability of water to consumers is explained on page 124.

## REMUNERATION REPORT

### Long-term incentive plan

#### Framework

The AWG long-term incentive plan (LTIP) is designed to reward and incentivise senior executives who can influence the long-term performance of the Company and deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees are granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a specific performance period. Long-term incentive awards are granted each year in June.

The minimum vesting of the base award value is zero and maximum vesting is 100 per cent. 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.

Maximum conditional cash awards granted under the LTIP are shown in Table 13 (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 performance period.

Under the rules of the LTIP, the Committee has discretion to:

- Substitute, vary or waive the performance conditions, providing any new condition produces a fairer assessment of performance and is not materially more difficult to satisfy
- Withhold up to 30 per cent of payment should there be material performance issues on water quality, health and safety, reputation or credit rating
- Determine the treatment of awards held by leavers, unless they are leaving due to death, incapacity or redundancy under the meaning of the Employment Rights Act 1996. The Committee's discretion extends to making recommendations to the Board on whether a participant may retain their award, on what basis and performance conditions, the extent to which an award would vest, and the timing of any payment. Further details are described earlier in this report, in the section on Policy on loss of office
- Defer payment until the data required to assess performance is available or verified by a third party where this is required.

## Outcomes in 2013/14

### Long-term incentive 2011

The 2011 award under the AWG long-term incentive plan vested in May 2014. Table 12 shows the performance measures and weightings for the awards made in 2011. The performance period ran from 1 April 2011 to 31 March 2014.

**Table 12**

Performance Measure	Description	Overall weighting as a % of base pay
Rate of return	Achievement of targeted average rate of return over the performance period.	75% for Peter Simpson and Scott Longhurst 37.5% for Jean Spencer and Chris Newsome
Serviceability <sup>1</sup>	Achievement of stable serviceability across all four asset classes.	10% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome
Capital Delivery Index <sup>2</sup>	An aggregate index of four measures of efficient delivery of our capital programme. The average CDI score over the performance period must be 95% for maximum vesting of this element.	10% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome
Service Incentive Mechanism <sup>3</sup>	Maintain an average of at least third position amongst the Water and Sewerage Companies, and be in at least third position in the final year of the performance period.	5% for Peter Simpson and Scott Longhurst 7.5% for Jean Spencer and Chris Newsome

<sup>1</sup> The Company operates within a serviceability framework which has been established by Ofwat to measure the effective maintenance and operation of the Company's assets. Ofwat monitor the performance of water and sewerage companies against this framework. Companies can be assessed as either improving, stable, marginal or deteriorating. The four asset classes are Water Infrastructure, Water Non-Infrastructure, Sewerage Infrastructure and Sewerage Non-Infrastructure.

<sup>2</sup> The Capital Delivery Index is described in the notes to Table 9.

<sup>3</sup> The Service Incentive Mechanism is described in Table 4, note 3.

In making recommendations to the Board on the extent to which these performance conditions had been achieved, the Committee concluded that the company had outperformed the stretch target on three of the four measures, (rate of return on investment, the Capital Delivery Index, and the Service Incentive Mechanism), and had exceeded base target on the fourth, serviceability. As a result of this very strong performance over the three-year performance period, the Remuneration Committee

recommended that the extent to which the performance conditions had been achieved was 96.2 per cent. Because Peter Simpson and Scott Longhurst have different weightings for the performance measures, their outcome has been determined as 98.1 per cent rather than 96.2 per cent. Under the design of the scheme, awards are uplifted by the average rate of return over the performance period. For the 2011 LTIP, this was 14.4 per cent.

## REMUNERATION REPORT

**Table 13: The table below shows the resulting payments to Executive Directors during 2013/14, and the value of other long-term incentives they hold which have not yet vested (audited)**

	LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
<b>Peter Simpson</b>	<b>2011 LTIP Award<sup>1</sup></b>		6 June 2011	31 March 2014		435,000		435,000	488,185
		Rate of return			75.0%				
		Serviceability			8.1%				
		Capital Delivery Index			10.0%				
		Service Incentive Mechanism			5.0%				
	<b>2012 LTIP Award</b>		1 June 2012	31 March 2015		435,000		435,000	
		Rate of return							
		Serviceability							
		Capital Delivery Index							
		Service Incentive Mechanism							
	<b>2013 LTIP Award</b>		6 June 2013	31 March 2016			435,000	435,000	
		Rate of return							
		Serviceability							
		Capital Delivery Index							
		Service Incentive Mechanism							



Table 13 (continued)

LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
<b>2012 AWG LTIP<sup>2</sup></b>	Rate of return AWS credit rating Market reform Calibre of management team	29 Nov 2012	31 March 2016		217,500		217,500	
<b>2013 AWG LTIP<sup>2</sup></b>	Rate of return AWS credit rating Market reform Calibre of management team	6 June 2013	31 March 2016			217,500	217,500	
<b>Scott Longhurst<sup>3</sup></b>		31 March 2012	31 March 2014		435,000		435,000	488,185
<b>2011 LTIP Award</b>	Rate of return Serviceability Capital Delivery Index Service Incentive Mechanism			75.0% 8.1% 10.0% 5.0%				

## REMUNERATION REPORT

Table 13 (continued)

LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
<b>2012 LTIP Award</b>	Rate of return Serviceability Capital Delivery Index Service Incentive Mechanism	1 June 2012	31 March 2015		435,000		435,000	
<b>2013 LTIP Award</b>	Rate of return Serviceability Capital Delivery Index Service Incentive Mechanism	6 June 2013	31 March 2016			435,000	435,000	
<b>2012 AWG LTIP<sup>2</sup></b>	Rate of return AWS credit rating Market reform Calibre of management team	29 Nov 2012	31 March 2016		217,500		217,500	

Table 13 (continued)

	LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
	<b>2013 AWG LTIP<sup>2</sup></b>		6 June 2013	31 March 2016			217,500	217,500	
		Rate of return							
		AWS credit rating							
		Market reform							
		Calibre of management team							
<b>Chris Newsome</b>	<b>2011 LTIP Award</b>		6 June 2011	31 March 2014		177,675		177,675	195,536
		Rate of return			50.0%				
		Serviceability			16.2%				
		Capital Delivery Index			20.0%				
		Service Incentive Mechanism			10.0%				
	<b>2012 LTIP Award</b>		1 June 2012	31 March 2015		182,117		182,117	
		Rate of return							
		Serviceability							
		Capital Delivery Index							
		Service Incentive Mechanism							

# REMUNERATION REPORT

Table 13 (continued)

	LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
	<b>2013 LTIP Award</b>		6 June 2013	31 March 2016			182,117	182,117	
		Rate of return							
		Serviceability							
		Capital Delivery Index							
		Service Incentive Mechanism							
<b>Jean Spencer</b>	<b>2011 LTIP Award</b>		6 June 2011	31 March 2014		135,188		135,188	148,778
		Rate of return			50.0%				
		Serviceability			16.2%				
		Capital Delivery Index			20.0%				
		Service Incentive Mechanism			10.0%				
	<b>2012 LTIP Award</b>		1 June 2012	31 March 2015		138,567		138,567	
		Rate of return							
		Serviceability							
		Capital Delivery Index							
		Service Incentive Mechanism							

**Table 13 (continued)**

LTIP award	Performance measures	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2013 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2014 £	Value of awards which vested on 23 May 2014 £
<b>2013 LTIP Award</b>		6 June 2013	31 March 2016			138,567	138,567	
	Rate of return							
	Serviceability							
	Capital Delivery Index							
	Service Incentive Mechanism							

<sup>1</sup> The cost of this long-term incentive payment to Peter Simpson was paid by the Company.

<sup>2</sup> This incentive is paid for by AWG and not charged to the Company. Further details are in the later section on additional long-term incentive awards.

<sup>3</sup> The cost of Scott Longhurst's long-term incentives are paid by AWG and are not charged to the Company.

As explained in Table 4, note 3, 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 approved the payment above, reflecting Anglian Water's top position compared with other companies on the qualitative target, and the improvement of quantitative scores over the performance period. If later in 2014, when the overall SIM scores are available for all water and sewerage companies, the Committee concludes that the Company's relative position does not justify the payment, an appropriate clawback will be arranged.

The performance condition on serviceability was also dependent on achieving an assessment of 'stable' in the final year of the performance period. Ofwat has confirmed the assessment of stable serviceability for all four asset classes, but should Ofwat subsequently amend this assessment, an appropriate clawback would be applied.

## REMUNERATION REPORT

### 2014 awards

The Committee intends to make further awards in June 2014, and has reviewed and updated the performance conditions to ensure they reflect the priorities for the three-year performance period from 1 April 2014 to 31 March 2017. These are shown in Table 14.

**Table 14: Performance measures and weightings for 2014 Long-Term Incentive Plan**

Performance measure	Description	Weighting as % of base pay	
		Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Rate of return	Achievement of targeted average rate of return over the performance period.	40.0	30.0
Service Incentive Mechanism <sup>1</sup>	In the second and third years of the performance period, achieve targeted scores and position amongst the Water and Sewerage Companies in Ofwat's Service Incentive Mechanism.	20.0	15.0
Serviceability <sup>2</sup>	Achievement of stable serviceability across all four asset classes.	20.0	15.0
Leakage	Achievement of targeted reduction in leakage by the end of the performance period.	5.0	3.75
Supply interruptions	Achieve targeted reduction in duration of water supply interruptions over the performance period.	5.0	3.75
Pollutions <sup>3</sup>	Achieve targeted reduction in average number of unconsented pollutions over the performance period.	5.0	3.75
Delivery of regulatory outputs	Delivery of specific schemes which are key to meeting obligations agreed with the Environment Agency and Drinking Water Inspectorate during the performance period.	5.0	3.75

<sup>1</sup> The Service Incentive Mechanism is described in Table 4, note 3. Ofwat is not proposing to conduct customer satisfaction surveys in the 2014/15 year, so this measure relates solely to performance in the last two years of the performance period.

<sup>2</sup> Serviceability is described in Table 12, note 1.

<sup>3</sup> This pollutions measure relates to pollution incidents across all asset types, and categories 1-4 under the current Environment Agency classification system. The Board has decided to include this wider measure in the long-term incentive because of the Company's commitment to minimising adverse impact on the environment from our operations.

### Additional long-term incentive plan

Peter Simpson and Scott Longhurst also participate in a separate long-term incentive plan, as described in Table 2. Awards under this plan vest in 2016, based on achievement of the

performance conditions set out in Table 15. The Committee intends to make a further award to Peter Simpson and Scott Longhurst under this plan. The cost is paid by AWG and is not charged to the Company.

**Table 15**

<b>Performance measure</b>	<b>Description</b>	<b>Weighting as % of base pay</b>
Rate of return	AMP6 business plan capable of delivering targeted rate of return.	20.0
AWS credit rating	AWS credit rating maintained at current level.	12.5
Market reform	Preparedness to meet challenges of structural reform of the industry.	12.5
Calibre of management team	Board satisfaction with calibre of key members of operational and financial management teams.	5.0

### Executive Directors' service contracts

The following table shows the start date for each Executive Director:

	<b>Start date as Executive Director</b>
<b>Scott Longhurst</b>	18 November 2004
<b>Chris Newsome</b>	24 September 2004
<b>Peter Simpson</b>	18 November 2004
<b>Jean Spencer</b>	20 May 2004

### External appointments

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 dates of the Chairman's and other Non-Executive Directors' letters of appointment and expiry of current terms are:

	<b>Date of first appointment</b>	<b>Date of expiry of current terms</b>
<b>Sir Adrian Montague</b>	29 January 2010	No fixed term
<b>Christopher Garnett</b>	1 December 2006	30 November 2015
<b>Robert Napier</b>	1 February 2002	30 June 2015
<b>John Watkinson</b>	12 May 2005	30 April 2017
<b>Paul Whittaker</b>	14 October 2013	13 October 2016

## REMUNERATION REPORT

### Remuneration

Table 16 provides a summary of key elements of remuneration for the Chairman and Non-Executive Directors for the year ended 31 March 2014 and any changes for the year ending 31 March 2015.

**Table 16**

Purpose and link to strategy	Operation	Maximum potential value as % of base fee	Performance metrics	Changes for 2014/15
<b>Fees</b>				
To attract high calibre individuals to these roles, and reflect the level of responsibility and time commitment involved.	For the Chairman and Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size.  Fees may include additional payments to Non-Executive Directors who chair Board committees, to reflect the significant additional responsibilities attached to these duties.	n/a	n/a	With the appointment of Peter Simpson as Group CEO, the consequent change in management structures, and the sale of the Morrison business, the responsibilities and duties of Chairman are reduced. The Chairman therefore proposed and the Board agreed to a reduction in his fee from £400,000 to £300,000 with effect from 1 April 2014.  No other changes are proposed for 2014/15.
<b>Benefits</b>				
	The Company covers the cost of travel between the Directors' home and office when carrying out duties. This includes payment of any tax due. Normal place of work is deemed to be the Company's head office in Huntingdon. Travel to any other location is reimbursed as normal business travel expenses.	Depending on the home location of the Director, these payments are between 0.5-2.5% of base fee.		

The Chairman and the Non-Executive Directors do not participate in any of the Company's incentive schemes or pension schemes. 60 per cent of the Chairman's costs are charged to the Company. 100 per cent of the Non-Executive Directors' costs are charged to the Company.



## Outcomes in 2013/14

Table 17: Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration AWS				Total remuneration - other AWG companies				Total remuneration all AWG					
	2012/13		2013/14		2012/13		2013/14		2012/13		2013/14		2012/13	2013/14
	Fees	Benefits <sup>1</sup>	Fees <sup>1</sup>	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Total	Total
Sir Adrian Montague	£150,000	£2,019	£240,000	£1,464	£250,000	£3,366	£160,000	£976	£400,000	£5,385	£400,000	£2,440	£405,385	£402,440
Christopher Garnett	£35,000	-	£40,833	£194	-	-	-	-	£35,000	-	£40,833	£194	£35,000	£41,027
Robert Napier	£45,000	£631	£50,833	£1,157	-	-	-	-	£45,000	£631	£50,833	£1,157	£45,631	£51,990
John Watkinson	£35,000	£131	£40,833	£356	-	-	-	-	£35,000	£131	£40,833	£356	£35,131	£41,189
Paul Whittaker <sup>2</sup>	-	-	£21,032	-	-	-	-	-	-	-	£21,032	-	-	£21,032
<b>Total Non-Executive Directors</b>	<b>£265,000</b>	<b>£2,781</b>	<b>£393,531</b>	<b>£3,171</b>	<b>£250,000</b>	<b>£3,366</b>	<b>£160,000</b>	<b>£976</b>	<b>£515,000</b>	<b>£6,147</b>	<b>£553,531</b>	<b>£4,147</b>	<b>£521,147</b>	<b>£557,678</b>

<sup>1</sup> Benefits are cost of home to office travel and associated tax paid by the Company for Non-Executive Directors carrying out duties at the Company's head office in Huntingdon.

<sup>2</sup> Paul Whittaker was appointed on 14 October 2013.

<sup>3</sup> The figures for 2013/14 reflect the increase to fees for Non-Executive Directors, which was agreed by the Board on 4 September 2013.

## REMUNERATION REPORT

### Fees

As explained in the Annual Statement, the Chairman's fees were reduced from £400,000 to £300,000 with effect from 1 April 2014, to reflect his significantly reduced responsibilities and duties following the appointment of Peter Simpson as Group CEO, the consequent change in management structures, and the disposal of the Morrison business.

During the year, based on publicly available benchmark data on levels of remuneration for similar roles, the Board concluded that fees for Non-Executive Directors should be increased from £35,000 to £45,000 for John Watkinson and Christopher Garnett, and from £45,000 to £55,000 for Robert Napier as Senior Independent Director and Chair of the Audit and Remuneration Committees.

Under the Articles of Association of the Company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the Company. This was obtained on 4 September 2013.

### Payments to past Directors

No payments were made to past Directors during the year.

### Payments for loss of office

No payments were made to Directors for loss of office during the year.

### Consideration by the Directors of matters relating to Directors' remuneration

The membership of the Remuneration Committee during the year is set out in the Policy section of this Remuneration Report.

Remuneration matters relating to the 2013/14 performance year were discussed at Remuneration Committee meetings held on 3 April 2013, 23 May 2013, 25 November 2013, 2 April 2014 and 23 May 2014. The items discussed at these meetings typically follow an established pattern, which is shown below:

#### March/April

- Discussion of proposed design for the performance contract (company targets) for the new 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

- Approval of the performance contract outturn in respect of the 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 the 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 the 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 new financial year.

## November

- Preliminary discussion of design of the long-term incentive plan for the following financial year
- Review of succession planning.

In addition to these activities, the Committee also undertook a review of remuneration packages for Executive Directors and key members of senior management, to ensure they remained competitive and appropriate against the market, and carried out a review of the Chairman's fee, as described earlier in this Report.

## External advisors

The Committee did not seek advice from external remuneration consultants during 2013/14.

## Remuneration policy in 2014/15

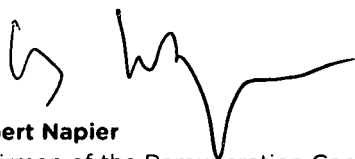
Table 2 describes the changes proposed for 2014/15.

Given the level of uncertainty and structural change affecting the water industry, the Committee is mindful that remuneration policy may need to be reviewed to ensure it remains appropriate for the longer term. During the coming year, the Committee will be considering changes to the design of remuneration arrangements, particularly the long-term incentive plan.

## 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 30 May 2014 and signed on its behalf.



**Robert Napier**  
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 2014.

## Business review

The ultimate parent Company of Anglian Water Services Limited is 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, IFM Investors and 3i. The Anglian Water ownership structure is detailed on page 28.

The information that fulfils the requirement of the Strategic Report, including a summary of the group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on pages 1 to 83. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on pages 54 to 55.

## Corporate Governance Statement

The Disclosure & Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 84 to 96 and is incorporated into this Directors' Report by reference.

Details of the corporate governance arrangements resulting from the securitisation of the Company in 2002 can be found on pages 88 and 89 of the Corporate Governance Report, together with the disclosures which satisfy the requirements of paragraph 13 (2) (c) (d) (f) (h) and (i) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, resulting from the EU Takeover Directive (DTR 7.2.6R).

## Financial instruments disclosures

Details are included in note 16 of the financial statements.

## Principal activities

The Company provides around 1.1 billion litres of drinking water to 4.5 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 910 million litres of used water per day from 2.6 million homes and businesses, including customers who receive their water from other companies. The used water is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

## Results and dividends

The profit and loss account on page 149 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 162.

## Health and safety

Details are included on pages 62 and 63.

## Directors

Current Directors of the Company are listed on pages 85 to 87 together with their biographical details. All the Directors served throughout the year, apart from Paul Whittaker who was appointed an additional Independent Non-Executive Director on 14 October 2013. Four additional Non-Executive Directors were appointed on 1 April 2014: Andrew Cox (3i); Andreas Köttering (CPPIB); Niall Mills (CBA); and Christian Seymour (IFM Investors).

## 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

We continue to provide support to WaterAid – our nominated charity (that transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities) – 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 £506,763 for WaterAid (2013: £393,000) – the highest amount ever raised by this committee. No political donations were made during the year (2013: £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 water recycling related matters.

## Customers

The Company values the opportunity to engage with customers across its region. This engagement takes a number of forms including satisfaction surveys, focus groups and customer workshops. Most recently, from January to March 2013, the Company undertook its biggest ever region-wide consultation on the future of water and water recycling services to inform the business plan for 2015 to 2020. Nearly 5,000 people responded to the consultation and hundreds more were involved through a new interactive website, school workshops and surveys. The results helped the Company develop its proposed business plan in July 2013. All customers were invited to comment on the acceptability of this plan and a survey of 2,200 customers was conducted to provide representative results. Over 90 per cent of those surveyed said they found the plan acceptable. The results of this survey were used to help refine the plan which was then submitted to Ofwat in December 2013.

The Company also engages with customers through behavioural change campaigns such as its Drop 20 campaign to encourage customers to use water wisely and Keep it Clear campaign to encourage customers to dispose of fats, oils and grease appropriately.

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).

## DIRECTORS' REPORT

### 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 frontline 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 99. 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.

### Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 26 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 2014 financial statements.

### **Directors' disclosures to auditors**

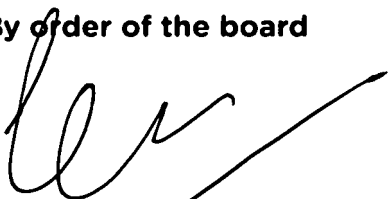
In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act the following applies:

- a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- 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  
30 May 2014

#### **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, the Directors' Remuneration 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 prepared the 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 group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.



Each of the Directors, whose names and functions are listed in the Leadership and Governance and Board of Directors sections on pages 26 and 85 confirm that, to the best of their knowledge:

- The financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company
- The Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

# ACCOUNTS

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## Group profit and loss account

for the year ended 31 March 2014

Notes		2014 £m	2013 £m
2	<b>Turnover</b>	<b>1,214.0</b>	1,163.0
	Operating costs:		
	- operating costs before depreciation	<b>(451.2)</b>	(445.8)
	- depreciation net of amortisation of grants and contributions	<b>(271.8)</b>	(262.4)
3	<b>Total operating costs</b>	<b>(723.0)</b>	(708.2)
	<b>Operating profit</b>	<b>491.0</b>	454.8
	Finance costs:		
4	- net interest payable	<b>(134.8)</b>	(148.7)
5	- other finance charges	<b>(3.8)</b>	(4.4)
6	<b>Profit on ordinary activities before taxation</b>	<b>352.4</b>	301.7
7	Tax on profit on ordinary activities	<b>(3.3)</b>	(5.9)
	<b>Profit for the financial year</b>	<b>349.1</b>	295.8

The results above arise from continuing operations.

Notes 1 to 27 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 2014

Notes	2014 £m	2013 £m
<b>Profit for the financial year</b>	<b>349.1</b>	<b>295.8</b>
20 Actuarial gain/(loss) recognised on the pension schemes	5.9	(45.8)
7 Current tax relating to the actuarial loss on the pension schemes	-	5.2
19 Movement on deferred tax relating to the actuarial (gain)/loss on the pension schemes	(1.3)	5.8
19 Impact of change in tax rate on deferred tax on the pension schemes	0.2	(0.2)
<b>Total recognised gains and losses relating to the year</b>	<b>353.9</b>	<b>260.8</b>

Notes 1 to 27 are an integral part of these consolidated financial statements.

## Group and company balance sheets

at 31 March 2014

Notes		Group		Company	
		2014 £m	2013 £m	2014 £m	2013 £m
	<b>Fixed assets</b>				
11	Tangible assets	5,169.0	5,034.1	5,169.0	5,034.1
12	Investments	1,602.6	1,602.6	1,602.6	1,602.6
		<b>6,771.6</b>	<b>6,636.7</b>	<b>6,771.6</b>	<b>6,636.7</b>
	<b>Current assets</b>				
13	Stocks	10.7	10.0	10.7	10.0
14	Debtors	498.6	507.6	498.5	507.5
	Investments - money-market deposits	67.9	116.4	67.9	116.4
	Cash at bank and in hand (including short-term deposits)	619.5	961.6	618.3	924.2
		<b>1,196.7</b>	<b>1,595.6</b>	<b>1,195.4</b>	<b>1,558.1</b>
	<b>Creditors: amounts falling due within one year</b>				
15, 16	Short-term borrowings	(69.7)	(649.3)	(69.7)	(649.3)
15	Other creditors	(611.5)	(657.9)	(656.4)	(666.1)
		<b>(681.2)</b>	<b>(1,307.2)</b>	<b>(726.1)</b>	<b>(1,315.4)</b>
	<b>Net current assets</b>	<b>515.5</b>	<b>288.4</b>	<b>469.3</b>	<b>242.7</b>
	<b>Total assets less current liabilities</b>	<b>7,287.1</b>	<b>6,925.1</b>	<b>7,240.9</b>	<b>6,879.4</b>
	<b>Creditors: amounts falling due after more than one year</b>				
16	Loans and other borrowings	(6,116.0)	(5,690.3)	(6,116.0)	(5,690.3)
17	Other creditors	(134.7)	(135.2)	(134.7)	(135.2)
		<b>(6,250.7)</b>	<b>(5,825.5)</b>	<b>(6,250.7)</b>	<b>(5,825.5)</b>
18	<b>Provisions for liabilities</b>	<b>(36.6)</b>	<b>(41.6)</b>	<b>(36.6)</b>	<b>(41.6)</b>
	<b>Net assets excluding pension liabilities</b>	<b>999.8</b>	<b>1,058.0</b>	<b>953.6</b>	<b>1,012.3</b>
20	<b>Defined benefit pension liabilities</b>	<b>(48.6)</b>	<b>(66.3)</b>	<b>(48.6)</b>	<b>(66.3)</b>
	<b>Net assets including pension liabilities</b>	<b>951.2</b>	<b>991.7</b>	<b>905.0</b>	<b>946.0</b>
	<b>Capital and reserves</b>				
22	Called-up share capital	10.0	10.0	10.0	10.0
23	Profit and loss account	941.2	981.7	895.0	936.0
	<b>Total shareholder's funds</b>	<b>951.2</b>	<b>991.7</b>	<b>905.0</b>	<b>946.0</b>

Notes 1 to 27 are an integral part of these consolidated financial statements.

The financial statements on pages 149 to 182 were approved by the Board of Directors on 30 May 2014 and were signed on its behalf by:

Sir Adrian Montague  
Director



Scott Longhurst  
Director

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## Group cash flow statement

for the year ended 31 March 2014

Notes	2014 £m	2013 £m
(a) <b>Net cash inflow from operating activities</b>	<b>726.1</b>	691.1
<b>Returns on investments and servicing of finance</b>		
Interest received	245.1	154.0
Interest paid	(229.6)	(232.3)
(d) Issue costs of new debt issued	(3.5)	(5.2)
Interest element of finance lease rental payments	(2.0)	(2.5)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>	<b>10.0</b>	(86.0)
<b>Taxation</b>		
Corporation tax received	-	2.1
Payments to other Anglian Water Group Limited group undertakings	-	(12.9)
<b>Net cash outflow for taxation</b>	<b>-</b>	(10.8)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(464.4)	(524.8)
Grants and contributions received	28.8	21.9
Disposal of tangible fixed assets	1.7	1.9
Repayment of inter-company loan	-	6.5
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(433.9)</b>	(494.5)
<b>Equity dividends paid to shareholders</b>	<b>(441.8)</b>	(310.3)
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(139.6)</b>	(210.5)
(c) <b>Management of liquid resources</b>		
(d) Decrease/(increase) in short-term deposits and investments	249.3	(299.8)
<b>Financing</b>		
(d) Increase in amounts borrowed	403.8	844.0
(d) Repayment of amounts borrowed	(650.8)	(249.8)
(d) Capital element of finance lease rental payments	(4.0)	(3.5)
<b>Net cash (outflow)/inflow from financing</b>	<b>(251.0)</b>	590.7
(d) <b>(Decrease)/increase in cash</b>	<b>(141.3)</b>	80.4

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

## Notes to the group cash flow statement

for the year ended 31 March 2014

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

	2014 £m	2013 £m
Operating profit	491.0	454.8
Depreciation (net of amortisation of deferred grants and contributions)	271.8	262.4
Profit on sale of fixed assets	(1.2)	(1.4)
Difference between pension charge and cash contributions	(23.7)	(24.6)
Net movement in provisions	(0.2)	(0.2)
	<b>737.7</b>	691.0
Working capital:		
- increase in stocks	(0.7)	(0.8)
- increase in debtors	(20.4)	(88.9)
- increase in creditors	9.5	89.8
	<b>(11.6)</b>	0.1
<b>Net cash inflow from operating activities</b>	<b>726.1</b>	691.1

### (b) Analysis of net debt

	1 April 2013 £m	Cash flows £m	Non-cash movements £m	31 March 2014 £m
Cash at bank and in hand	235.9	(141.3)	-	94.6
Deposits and investments	842.1	(249.3)	-	592.8
Short-term borrowings	(649.3)	654.8	(75.2)	(69.7)
Loans and other borrowings due after more than one year	(5,690.3)	(400.3)	(25.4)	(6,116.0)
	<b>(5,261.6)</b>	<b>(136.1)</b>	<b>(100.6)</b>	<b>(5,498.3)</b>

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of 'mark to market' adjustments. Included within deposits and investments above are £524.9 million (2013: £725.7 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 2014

### (d) Movement in net debt

	2014 £m	2013 £m
<b>At 1 April</b>	<b>(5,261.6)</b>	(4,942.5)
Net (decrease)/increase in cash	<b>(141.3)</b>	80.4
(Decrease)/increase in short-term bank deposits and investments	<b>(249.3)</b>	299.8
Increase in borrowings	<b>(403.8)</b>	(844.0)
Repayment of amounts borrowed	<b>650.8</b>	249.8
Capital element of finance lease rental payments	<b>4.0</b>	3.5
Issue costs of new debt issued	<b>3.5</b>	5.2
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	<b>(2.6)</b>	(2.9)
Indexation of loan stock and RPI swaps	<b>(98.0)</b>	(110.9)
<b>At 31 March</b>	<b>(5,498.3)</b>	(5,261.6)



# Notes to the group financial statements

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## 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 (UK GAAP) 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 10 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, sewerage 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 sewerage charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.2 million).

### (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 219).

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 sewage 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

#### (c) Tangible fixed assets and depreciation continued

##### (ii) Other assets 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 11.

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

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

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

*(i) 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 historical 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 under FRS8 'Related party disclosures' not to disclose transactions with other members of the Anglian Water Group Limited group 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 compared to the UK RPI 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 FRS26 'Financial instruments: recognition and measurement' and therefore the disclosure requirements of FRS29 'Financial instruments: disclosures' are not applicable. The disclosure requirements of FRS13 '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

	2014 £m	2013 £m
Operating costs before depreciation:		
Raw materials and consumables	17.1	15.7
Other operating costs	322.6	325.6
Staff costs (see note 9)	169.2	168.2
Own work capitalised	(57.1)	(62.9)
Contribution to Anglian Water Assistance Fund	0.6	0.6
Profit on sale of fixed assets	(1.2)	(1.4)
<b>Total operating costs before depreciation</b>	<b>451.2</b>	<b>445.8</b>
Depreciation of tangible fixed assets:		
- owned	274.3	263.5
- held under finance lease	6.3	7.5
Amortisation of deferred grants and contributions	(8.8)	(8.6)
<b>Depreciation net of amortisation of deferred grants and contributions</b>	<b>271.8</b>	<b>262.4</b>
<b>Total operating costs</b>	<b>723.0</b>	<b>708.2</b>

## Notes to the group financial statements continued

### 4 Net interest payable

	2014 £m	2013 £m
Interest payable on other loans including financing expenses	232.1	235.5
Indexation	98.0	110.9
Finance leases	1.9	2.4
Interest receivable from Anglian Water Services Holdings Limited	(192.3)	(192.7)
Other interest receivable	(4.9)	(7.4)
<b>Net interest payable and similar items</b>	<b>134.8</b>	<b>148.7</b>

### 5 Other finance charges

	2014 £m	2013 £m
Unwinding of discount and change in discount rates on provisions (see note 18)	(0.4)	1.5
Defined benefit pension scheme interest charge (see note 20(f))	4.2	2.9
<b>Other finance charges</b>	<b>3.8</b>	<b>4.4</b>

### 6 Profit on ordinary activities before taxation

	2014 £m	2013 £m
Profit before taxation is stated after charging/(crediting):		
Profit on disposal of tangible fixed assets	(1.2)	(1.4)
Hire of machinery and equipment	0.5	0.8
Other operating lease rentals	2.2	2.6
Research and development expenditure	0.1	0.2
During the year the group obtained the following services from the Company's auditors:		
Fees payable to the Company's auditors for the audit of the parent company and the consolidated financial statements	0.2	0.2
Fees payable to the Company's auditors for other services:		
- audit-related assurance services	0.1	-
- other assurance services	-	0.1
- other non-audit services	0.3	0.2
	<b>0.6</b>	<b>0.5</b>

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat, and review of the group's half-year results. Other assurance services of £43,000 (2013: £65,000) relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to the business plan for 2015-20, system improvements, pensions, IFRS advice and risk management.

## 7 Taxation

### (a) Analysis of tax charge in the year

	2014 £m	2013 £m
Current tax:		
UK corporation tax	24.5	32.1
Adjustments in respect of previous periods	(2.1)	(1.9)
<b>Total current tax charge</b>	<b>22.4</b>	<b>30.2</b>
Deferred tax:		
Charge for timing differences arising in year	16.4	(1.8)
Impact of discounting on deferred tax liability	(13.0)	(17.6)
Impact of (increase)/decrease in discount rates	(9.6)	7.3
Effect of reduction in corporation tax rate to 20% (2013: 23%)	(7.0)	(4.6)
Adjustments in respect of previous periods	(5.9)	(7.6)
<b>Total deferred tax credit</b>	<b>(19.1)</b>	<b>(24.3)</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>3.3</b>	<b>5.9</b>

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £9.6 million (2013: charge of £7.3 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 23% to 21% that is effective from 1 April 2014, and to 20% from 1 April 2015, all relevant deferred tax balances have been re-measured. The effect of this 3% (2013: 1%) reduction in corporate tax rates is a credit of £7.0 million (2013: £4.6 million) which consists of a gross credit of £68.8 million (2013: £22.4 million) offset by a discounting charge of £61.8 million (2013: £17.8 million).

The current tax adjustment for previous periods relates to a credit for the agreement of prior year tax computations of £5.3 million (2013: credit £0.4 million) and a credit to another group company for expected Advance Corporation Tax utilisation of £2.3 million (2013: credit of £1.7 million) offset by a prior year capital allowances disclaimer charge of £5.5 million (2013: charge of £0.2 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 £192.3 million (2013: £192.7 million).

In 2013, in addition to the current tax charge above, a £5.2 million credit for current tax was recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account.

Due to the availability of tax losses elsewhere in the group, the Company's liability for corporation tax is settled via payments to other group companies for group relief.

## Notes to the group financial statements continued

### 7 Taxation continued

#### (b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £m	2013 £m
Profit on ordinary activities before taxation	352.4	301.7
Tax on profit on ordinary activities at the standard UK rate of corporation tax of 23% (2013: 24%)	81.1	72.4
Effects of:		
Items not deductible for tax purposes	0.4	0.4
Items not taxable	(0.3)	(0.3)
Group relief utilised	(44.2)	(46.2)
Depreciation not eligible for tax purposes	3.9	4.0
Depreciation for the year (less than)/in excess of capital allowances	(13.0)	0.7
Short-term timing differences	(3.4)	1.1
Adjustment in respect of previous periods	(2.1)	(1.9)
<b>Current tax charge for the year</b>	<b>22.4</b>	<b>30.2</b>

The group relief utilised relates to losses surrendered by Anglian Water Services Holdings Limited on a nil charge basis.

### 8 Dividends

	2014 £m	2013 £m
Previous year final dividend	95.0	86.0
Current year interim dividend	107.1	78.5
Dividend paid by the Company and retained within the Anglian Water Services Financing Group	191.8	144.8
Dividend committed to be paid by the Company and retained within the Anglian Water Services Financing Group	0.5	47.9
	<b>394.4</b>	<b>357.2</b>

A dividend of £192.3 million (2013: £192.7 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 (2013: £1,602.6 million). The prior year dividend committed of £47.9 million was paid in April 2013.

The Directors have proposed a final dividend for the year ended 31 March 2014 of £11.10 per share, which is a total of £111.0 million. This distribution has not been accounted for within the 2014 financial statements as it was proposed and approved after the year end.



## 9 Employee information and Directors' emoluments

(a) Employee information	2014 £m	2013 £m
Staff costs:		
Wages and salaries	141.9	142.3
Social security costs	13.0	12.9
Pension costs - defined contribution (see note 20)	5.7	4.9
Pension costs - defined benefit (see note 20(f))	8.6	8.1
	<b>169.2</b>	<b>168.2</b>

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

	2014	2013
Average number of full-time equivalent persons employed (including Executive Directors):		
Water Services	664	673
Water Recycling Services	1,578	1,537
Customer Services	781	755
Asset Management and Other	1,043	966
	<b>4,066</b>	<b>3,931</b>

(b) Directors' emoluments	2014 £'000	2013 £'000
Total aggregate emoluments	2,373	2,284
Company contributions to defined contribution pension schemes	75	114
Benefits received under long-term incentive plans	832	808

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 (2013: one Director) under a defined benefit pension scheme. Retirement benefits are accruing to three Directors (2013: three 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.

(c) Highest paid Director	2014 £'000	2013 £'000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	1,108	1,275
Accrued defined benefit at year end	59	57

## Notes to the group financial statements continued

### 9 Employee information and Directors' emoluments continued

(c) Highest paid Director continued

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £3,000 (2013: £24,000).

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 104.

### 10 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 £348.6 million (2013: £295.2 million).

### 11 Tangible fixed assets

	Group and company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
<b>Cost</b>						
At 1 April 2013	40.4	3,400.9	4,152.3	985.3	481.3	9,060.2
Additions	-	-	-	-	427.7	427.7
Transfers on commissioning	0.7	121.6	250.1	99.9	(472.3)	-
Disposals	-	-	(0.1)	(20.1)	-	(20.2)
<b>At 31 March 2014</b>	<b>41.1</b>	<b>3,522.5</b>	<b>4,402.3</b>	<b>1,065.1</b>	<b>436.7</b>	<b>9,467.7</b>
<b>Grants and contributions</b>						
At 1 April 2013	-	(280.4)	-	-	-	(280.4)
Additions	-	(14.9)	-	-	2.8	(12.1)
<b>At 31 March 2014</b>	<b>-</b>	<b>(295.3)</b>	<b>-</b>	<b>-</b>	<b>2.8</b>	<b>(292.5)</b>
<b>Accumulated depreciation</b>						
At 1 April 2013	(5.2)	(1,045.0)	(1,961.4)	(734.1)	-	(3,745.7)
Charge for the year	(0.4)	(90.4)	(131.9)	(57.9)	-	(280.6)
Disposals	-	-	-	20.1	-	20.1
<b>At 31 March 2014</b>	<b>(5.6)</b>	<b>(1,135.4)</b>	<b>(2,093.3)</b>	<b>(771.9)</b>	<b>-</b>	<b>(4,006.2)</b>
<b>Net book value</b>						
<b>At 31 March 2014</b>	<b>35.5</b>	<b>2,091.8</b>	<b>2,309.0</b>	<b>293.2</b>	<b>439.5</b>	<b>5,169.0</b>
At 31 March 2013	35.2	2,075.5	2,190.9	251.2	481.3	5,034.1

Tangible fixed assets at 31 March 2014 include land of £25.6 million (2013: £25.1 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

<b>Assets held under finance leases and capitalised in the above</b>	<b>2014 £m</b>	<b>2013 £m</b>
Cost	<b>236.9</b>	236.9
Aggregate depreciation	<b>(177.9)</b>	(171.6)
<b>Net book value</b>	<b>59.0</b>	65.3

### 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 2014.

	<b>2014 £m</b>	<b>2013 £m</b>
Contracted for but not provided in the financial statements	<b>113.1</b>	186.2

### 12 Fixed asset investments

	<b>Group and company</b>	
	<b>2014 £m</b>	<b>2013 £m</b>
Loan to Anglian Water Services Holdings Limited	<b>1,602.6</b>	1,602.6
Investment in Anglian Water Services Financing Plc	-	-
	<b>1,602.6</b>	1,602.6

The loan of £1,602.6 million (2013: £1,602.6 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 prior year £6.5 million of the loan was repaid from amounts received on settlement of an inter-company 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 2014.

### 13 Stocks

	<b>Group and company</b>	
	<b>2014 £m</b>	<b>2013 £m</b>
Raw materials and consumables	<b>10.7</b>	10.0

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

## Notes to the group financial statements continued

### 14 Debtors

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Amounts falling due within one year</b>				
Trade debtors	205.0	191.5	205.0	191.5
Amounts owed by other Anglian Water Group Limited group undertakings	1.3	48.3	1.3	48.3
Other debtors	10.7	15.8	10.6	15.7
Prepayments and accrued income	262.5	251.3	262.5	251.3
	<b>479.5</b>	<b>506.9</b>	<b>479.4</b>	<b>506.8</b>
<b>Amounts falling due after more than one year</b>				
Amounts owed by other Anglian Water Group Limited group undertakings	0.4	0.7	0.4	0.7
Other debtors <sup>1</sup>	18.7	-	18.7	-
	<b>498.6</b>	<b>507.6</b>	<b>498.5</b>	<b>507.5</b>

<sup>1</sup> Other debtor balance falling due after more than one year of £18.7 million (2013: £nil) relates to a deferred tax asset as set out in note 19.

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

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.

### 15 Creditors: amounts falling due within one year

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Current portion of long-term loans	60.8	645.5	60.8	645.5
Obligations under finance leases	8.9	3.8	8.9	3.8
<b>Short-term borrowings (see note 16)</b>	<b>69.7</b>	<b>649.3</b>	<b>69.7</b>	<b>649.3</b>
Trade creditors	126.8	168.6	126.8	168.6
Amounts owed to other Anglian Water Group Limited group undertakings	0.7	48.0	143.4	157.8
Receipts in advance	223.9	205.4	223.9	205.4
Corporation tax - payments due to other group companies for group relief	118.8	94.1	118.8	94.1
Other taxation and social security	3.5	3.4	3.5	3.4
Accruals	129.1	129.9	31.3	28.3
Deferred grants and contributions	8.7	8.5	8.7	8.5
<b>Other creditors</b>	<b>611.5</b>	<b>657.9</b>	<b>656.4</b>	<b>666.1</b>

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

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

## 16 Loans, other borrowings and financial instruments

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Loans and other borrowings</b>				
£100 million 12.375% fixed rate 2014 (d), (f)	-	100.0	-	100.0
£250 million 5.837% fixed rate 2022 (d), (f)	<b>248.3</b>	248.1	<b>248.3</b>	248.1
£200 million 6.875% fixed rate 2023 (d), (f)	<b>200.0</b>	200.0	<b>200.0</b>	200.0
£200 million 6.625% fixed rate 2029 (d), (f)	<b>200.0</b>	200.0	<b>200.0</b>	200.0
£246 million 6.293% fixed rate 2030 (d), (f)	<b>244.4</b>	244.3	<b>244.4</b>	244.3
£250 million 5.25% fixed rate 2015 (b), (d), (f)	<b>249.9</b>	249.9	<b>249.9</b>	249.9
£150 million 5.5% fixed rate 2017/2040 (b), (d), (f), (g) <sup>1</sup>	<b>149.5</b>	149.4	<b>149.5</b>	149.4
£150 million 4.125% index-linked 2020 (c), (d), (f)	<b>227.2</b>	220.7	<b>227.2</b>	220.7
£75 million 3.666% index-linked 2024 (c), (d), (f)	<b>107.9</b>	104.8	<b>107.9</b>	104.8
£200 million 3.07% index-linked 2032 (c), (d), (f)	<b>286.5</b>	278.0	<b>286.5</b>	278.0
£60 million 3.07% index-linked 2032 (c), (d), (f)	<b>86.4</b>	83.8	<b>86.4</b>	83.8
Finance leases (b), (d)	<b>52.0</b>	55.9	<b>52.0</b>	55.9
£150 million index-linked swap 2024 (e), (f)	<b>29.0</b>	23.2	<b>29.0</b>	23.2
£175 million index-linked swap 2030 (e), (f)	<b>33.8</b>	27.0	<b>33.8</b>	27.0
£258 million index-linked swap 2013 (e), (f)	-	92.3	-	92.3
€650 million 4.625% fixed rate 2013 (a), (b), (d), (f)	-	453.2	-	453.2
£402 million 2.40% index-linked 2035 (c), (d), (f)	<b>534.3</b>	520.1	<b>534.3</b>	520.1
£50 million 1.7% index-linked 2046 (c), (d), (f)	<b>64.5</b>	62.6	<b>64.5</b>	62.6
£50 million 1.7% index-linked 2046 (c), (d), (f)	<b>64.5</b>	62.7	<b>64.5</b>	62.7
£40 million 1.7146% indexation bond 2056 (c), (d), (f)	<b>51.8</b>	50.4	<b>51.8</b>	50.4
£50 million 1.6777% indexation bond 2056 (c), (d), (f)	<b>64.8</b>	63.0	<b>64.8</b>	63.0
£60 million 1.7903% indexation bond 2049 (c), (d), (f)	<b>77.7</b>	75.5	<b>77.7</b>	75.5
£100 million 1.3784% indexation bond 2057 (c), (d), (f)	<b>129.2</b>	125.7	<b>129.2</b>	125.7
£50 million 1.3825% indexation bond 2056 (c), (d), (f)	<b>64.6</b>	62.8	<b>64.6</b>	62.8
£100 million Class A wrapped floating rate bonds (d), (f)	<b>99.9</b>	99.9	<b>99.9</b>	99.9
£100 million index-linked swap 2057 (e), (f)	<b>28.3</b>	24.8	<b>28.3</b>	24.8
£75 million 1.449% indexation bond 2062 (c), (d), (f)	<b>92.1</b>	89.5	<b>92.1</b>	89.5
£50 million 1.52% indexation bond 2055 (c), (d), (f)	<b>61.3</b>	59.6	<b>61.3</b>	59.6
JPY 15 billion 2.925% fixed rate bond 2018/2037 (a), (b), (d), (f)	<b>65.9</b>	65.9	<b>65.9</b>	65.9
£65.9 million index-linked swap 2059 (e), (f)	<b>15.1</b>	12.8	<b>15.1</b>	12.8
£110 million Class A unwrapped floating rate bonds 2043 (d), (f)	<b>109.9</b>	109.9	<b>109.9</b>	109.9
£50 million index-linked swap 2043 (e), (f)	<b>10.2</b>	8.7	<b>10.2</b>	8.7
JPY 5 billion 3.22% fixed rate bond 2019/2038 (a), (b), (d), (f)	<b>25.0</b>	25.0	<b>25.0</b>	25.0
€500 million 6.25% fixed rate bond 2016 (a), (b), (d), (f)	<b>393.4</b>	393.2	<b>393.4</b>	393.2
£25 million 6.875% private placements 2034 (d), (f)	<b>24.6</b>	24.6	<b>24.6</b>	24.6
£100 million Class B 6.75% fixed rate bond 2014/2024 (d), (f), (g) <sup>2</sup>	<b>60.8</b>	60.7	<b>60.8</b>	60.7
EIB £50 million 1.626% index-linked term facility 2019 (c), (d), (f)	<b>59.4</b>	57.7	<b>59.4</b>	57.7
EIB £50 million 1.3% index-linked term facility 2020 (c), (f)	<b>58.6</b>	56.8	<b>58.6</b>	56.8
£130 million 2.262% index-linked bond 2045 (c), (d), (f)	<b>148.3</b>	144.0	<b>148.3</b>	144.0
US\$160 million 4.52% private placements 2021 (a), (b), (d), (f)	<b>98.6</b>	98.6	<b>98.6</b>	98.6
£25 million index-linked swap 2061 (e), (f)	<b>0.3</b>	-	<b>0.3</b>	-
US\$410 million 5.18% private placements 2021 (a), (b), (d), (f)	<b>258.9</b>	258.8	<b>258.9</b>	258.8
EIB £75 million 0.53% index-linked term facility 2027 (c), (d), (f) <sup>3</sup>	<b>79.6</b>	77.4	<b>79.6</b>	77.4
<b>Sub-total carried forward</b>	<b>4,856.5</b>	5,421.3	<b>4,856.5</b>	5,421.3

## Notes to the group financial statements continued

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

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Sub-total brought forward</b>	<b>4,856.5</b>	5,421.3	<b>4,856.5</b>	5,421.3
EIB £75 million 0.79% index-linked term facility 2027 (c), (d), (f) <sup>3</sup>	<b>79.6</b>	77.4	<b>79.6</b>	77.4
£250 million 4.5% fixed rate 2027 (d), (f)	<b>245.9</b>	245.6	<b>245.9</b>	245.6
£15 million 1.37% index-linked private placements 2022 (c), (d), (f)	<b>15.5</b>	15.0	<b>15.5</b>	15.0
£50 million 2.05% index-linked private placements 2033 (c), (d), (f)	<b>52.1</b>	50.6	<b>52.1</b>	50.6
£25.5 million 4.195% private placements 2017 (d), (f)	<b>25.3</b>	25.3	<b>25.3</b>	25.3
£31.9 million 3.983% private placements 2022 (d), (f)	<b>31.7</b>	31.7	<b>31.7</b>	31.7
£73.3 million 4.394% private placements 2028 (d), (f)	<b>73.1</b>	73.1	<b>73.1</b>	73.1
£22.3 million 3.983% private placements 2022 (d), (f)	<b>22.1</b>	22.1	<b>22.1</b>	22.1
US\$47 million 5.0% private placements 2022 (a), (b), (d), (f)	<b>29.8</b>	29.7	<b>29.8</b>	29.7
EIB £150 million 0% index-linked term facility 2028 (d), (f) <sup>4</sup>	<b>154.8</b>	150.4	<b>154.8</b>	150.4
£200 million Class B 4.5% fixed rate 2026 (b), (d), (f)	<b>197.4</b>	197.4	<b>197.4</b>	197.4
£35 million 1.141% index-linked bond 2042 (c), (d), (f)	<b>35.6</b>	-	<b>35.6</b>	-
US\$170 million 3.84% private placement 2023 (a), (b), (d), (f)	<b>109.6</b>	-	<b>109.6</b>	-
£93 million 3.537% private placement 2023 (d), (f)	<b>92.5</b>	-	<b>92.5</b>	-
US\$160 million 4.99% private placement 2023 (a), (b), (d), (f)	<b>99.3</b>	-	<b>99.3</b>	-
EIB £65 million 0.41% index-linked term facility 2029 (c), (d), (f) <sup>5</sup>	<b>64.9</b>	-	<b>64.9</b>	-
<b>Total loans and other borrowings</b>	<b>6,185.7</b>	6,339.6	<b>6,185.7</b>	6,339.6
Less amounts included in creditors falling due within one year	<b>(69.7)</b>	(649.3)	<b>(69.7)</b>	(649.3)
<b>Loans and other borrowings due after more than one year</b>	<b>6,116.0</b>	5,690.3	<b>6,116.0</b>	5,690.3

<sup>1</sup> 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.

<sup>2</sup> 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 £39.1 million bonds of this instrument.

<sup>3</sup> These instruments are amortising from 2017 until the date of maturity shown.

<sup>4</sup> This instrument is amortising from 2018 until the date of maturity shown.

<sup>5</sup> This instrument is amortising from 2019 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 £32.9 million (2013: £(16.2) million), the adjustment to the Euro loans is £(18.8) million (2013: £(123.0) million) and the adjustment to the Japanese Yen loan is £(25.3) million (2013: £(48.7) million).

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy (see page 158).

(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 £72.5 million (2013: £71.2 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 seven 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 £25.5 million (2013: £39.7 million) has been taken to the profit and loss account as part of interest payable.

- (f) These loans are 'back-to-back' inter-group loans from Anglian Water Services Financing Plc to the Company. Under the Company/Anglian Water Services Financing Plc loan agreement, Anglian Water Services Financing Plc 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.
- (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 2014 this charge applies to £6,185.7 million (2013: £6,339.6 million) of the debt listed above.

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

	2014		2013	
	Creditors < 1 year £m	Creditors > 1 year £m	Creditors < 1 year £m	Creditors > 1 year £m
Amounts owed to group undertakings	60.8	6,099.3	645.5	5,663.7
Debt issue costs	-	(26.4)	-	(25.5)
Obligations under finance leases	8.9	43.1	3.8	52.1
	<b>69.7</b>	<b>6,116.0</b>	649.3	5,690.3

#### Maturity analysis of financial liabilities

	Group and company	
	2014 £m	2013 £m
Less than one year	70.9	650.9
Between one and two years	255.8	73.1
Between two and five years	512.8	724.7
After five years	5,382.8	4,927.8
	<b>6,222.3</b>	6,376.5

Included above are amounts due under finance leases of £8.9 million (2013: £3.8 million) payable within one year, £4.7 million (2013: £8.8 million) payable between one and two years, £16.8 million (2013: £15.3 million) payable between two and five years and £21.6 million (2013: £28.0 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 £nil (2013: £2.3 million) and provisions totalling £36.6 million (2013: £34.6 million), of which £1.2 million (2013: £1.6 million) fall due in less than one year. This analysis is net of issue costs totalling £26.4 million (2013: £25.5 million).

## Notes to the group financial statements continued

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

#### Borrowing facilities

	Group	
	2014 £m	2013 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	375.0	365.0
Expiring between two and five years	420.0	420.0
	<b>795.0</b>	<b>785.0</b>

#### Control of treasury

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

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

#### Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The Board regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in April 2014 and treasury matters are reported to the Board each month.

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

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

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

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

#### Borrowing covenants

With the exception of asset-based funding, all the group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing Group (see Directors' Report on page 142). 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*

	2014		2013	
	Book value £m	Fair value <sup>1</sup> £m	Book value £m	Fair value <sup>1</sup> £m
The fair value of the group's financial instruments at 31 March was:				
Cash at bank and in hand	619.5	619.5	961.6	961.6
Current asset investments	67.9	67.9	116.4	116.4
Short-term borrowings	(69.7)	(69.0)	(652.2)	(678.5)
Long-term borrowings	(6,010.4)	(6,965.2)	(5,686.5)	(6,784.3)
Interest rate swaps	11.2	42.3	187.9	225.2
Index-linked swaps	(116.8)	(575.9)	(188.8)	(717.9)
Net debt	(5,498.3)	(6,880.4)	(5,261.6)	(6,877.5)
Energy hedging instruments	-	(16.7)	-	(3.2)
Fixed asset investments	1,602.6	2,403.9	1,602.6	2,403.9
Provisions and long-term liabilities excluding deferred tax and pension obligations	(36.6)	(75.2)	(36.9)	(89.0)
	<b>(3,932.3)</b>	<b>(4,568.4)</b>	<b>(3,695.9)</b>	<b>(4,565.8)</b>

<sup>1</sup> The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £97.6 million (2013: £101.6 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors: amounts falling due within one year.

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of private debt, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads on 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 2014. The value at that date was determined by market rates, which fluctuate over time.

## Notes to the group financial statements continued

### 16 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 2014. The value at that date was determined by market rates, which fluctuate over time.

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

#### Unrecognised gains and losses on hedges

	2014			2013		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	100.1	(647.2)	(547.1)	109.9	(505.0)	(395.1)
Reversal of items unrecognised at 1 April	(7.5)	113.6	106.1	(1.2)	-	(1.2)
Recognised during the year	(43.5)	67.6	24.1	(47.8)	61.3	13.5
Arising during the year	18.4	(84.8)	(66.4)	39.2	(203.5)	(164.3)
<b>Unrecognised at 31 March</b>	<b>67.5</b>	<b>(550.8)</b>	<b>(483.3)</b>	<b>100.1</b>	<b>(647.2)</b>	<b>(547.1)</b>

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £483.3 million (2013: £547.1 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 2014.

Of the unrecognised gains and losses at 31 March 2014, a net gain of £22.8 million (2013: £24.4 million) is expected to be included in the profit and loss account for the year ended 31 March 2015 and the balance in future years.

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

#### Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2014

	Total £m	Index- linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate weighted average interest rate	Fixed rate weighted average years to maturity
Total borrowings (all sterling) <sup>1</sup>	(6,185.7)	(3,343.2)	(555.8)	(2,286.7)	-	6.1%	10.2
Cash, deposits and current asset investments (all sterling)	687.4	-	687.4	-	-		
<b>Net debt</b>	<b>(5,498.3)</b>	<b>(3,343.2)</b>	<b>131.6</b>	<b>(2,286.7)</b>	<b>-</b>		
Fixed asset investments	1,602.6	-	-	1,602.6	-	12.0%	
Provisions	(36.6)	-	-	-	(36.6)		
<b>Net financial liabilities</b>	<b>(3,932.3)</b>	<b>(3,343.2)</b>	<b>131.6</b>	<b>(684.1)</b>	<b>(36.6)</b>		

<sup>1</sup> The underlying currencies of borrowings as set out on page 167 have been swapped to sterling.

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) <sup>1</sup>	(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	-	12.0%	
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)		

<sup>1</sup> The underlying currencies of borrowings as set out on page 167 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 the London Inter Bank Offer Rate (LIBOR).

**17 Other creditors falling due after more than one year**

	Group and company	
	2014 £m	2013 £m
Deferred grants and contributions	134.7	132.9
Amounts owed to other Anglian Water Group Limited group undertakings	-	2.3
	134.7	135.2

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.

**18 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 2013	1.5	21.9	11.2	7.0	41.6
Charge/(credit) for the year	-	4.5	-	(7.0)	(2.5)
Unwinding of discount and change in discount rates (note 5)	0.1	-	(0.5)	-	(0.4)
Utilised in the year	(0.2)	-	(1.9)	-	(2.1)
<b>At 31 March 2014</b>	<b>1.4</b>	<b>26.4</b>	<b>8.8</b>	<b>-</b>	<b>36.6</b>

## Notes to the group financial statements continued

### 18 Provisions for liabilities continued

The onerous lease provision relates to office space vacated by the group as part of a cost cutting programme to achieve efficiency targets. The provision is discounted and is expected to be utilised over the next nine 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 £8.8 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 16 years and has been discounted.

The deferred tax provision and the effect of discounting is analysed in note 19.

### 19 Deferred tax

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

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £59.5 million.

	Group and company	
	2014 £m	2013 £m
Accelerated capital allowances	480.6	538.7
Short-term timing differences	(8.1)	(7.0)
Surplus ACT asset	(142.5)	(142.5)
Undiscounted provision for deferred tax	330.0	389.2
Discount	(348.7)	(382.2)
Discounted deferred tax (asset)/liability	(18.7)	7.0
Deferred tax asset on pension liability (see note 20(b))	(12.1)	(19.8)
<b>Total deferred tax asset included in the balance sheet</b>	<b>(30.8)</b>	<b>(12.8)</b>
As at 1 April 2013	(12.8)	
Deferred tax credited to the profit and loss account (see note 7(a))	(19.1)	
Deferred tax charged to the statement of total recognised gains and losses	1.1	
<b>At 31 March 2014</b>	<b>(30.8)</b>	

## 20 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.

The group also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of FRS17 as at 31 March 2014. 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 10 and 19 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 £5.7 million (2013: £4.9 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 FRS17 in order to assess the liabilities of the scheme at 31 March 2014. The group contributed 12.5% of pensionable pay in the year and for the year ending 31 March 2015 the expected contribution rate is 12.5%. In addition, the group paid £22.7 million in deficit reduction payments in the year and anticipates it will pay £23.3 million in 2015.

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

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

<sup>1</sup> For RPI pension increases capped at 5% pa.

<sup>2</sup> 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 2014, 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

### 20 Pension commitments continued

#### (a) Financial assumptions continued

	2014	2013
Longevity at age 65 for current pensioners (years):		
- men	23.1	23.1
- women	25.4	25.3
Longevity at age 65 for future pensioners (years) <sup>3</sup> :		
- men	24.9	24.9
- women	27.4	27.3

<sup>3</sup> The life expectancy shown for future pensioners is for those reaching 65 in 2034.

#### (b) Amounts recognised in the balance sheet

The long-term expected rate of return and the assets in the schemes at 31 March 2014 are:

	Expected rate of return % pa	AWGPS	Unfunded pensions	Hartlepool	Total £m
		Fair value £m	Fair value £m	Fair value £m	
<b>2014</b>					
Equities	6.4	255.1	n/a	2.9	258.0
Corporate bonds	4.1	470.2	n/a	-	470.2
Government bonds	3.4	226.7	n/a	15.0	241.7
Property	5.4	65.1	n/a	-	65.1
Alternatives	5.4	2.8	n/a	0.9	3.7
Other	0.5	55.0	n/a	-	55.0
<b>Total assets</b>		<b>1,074.9</b>	<b>-</b>	<b>18.8</b>	<b>1,093.7</b>
Fair value of scheme liabilities		(1,088.6)	(45.9)	(19.9)	(1,154.4)
<b>Deficit in the scheme</b>		<b>(13.7)</b>	<b>(45.9)</b>	<b>(1.1)</b>	<b>(60.7)</b>
Related deferred tax asset		2.7	9.2	0.2	12.1
<b>Net pension liability</b>		<b>(11.0)</b>	<b>(36.7)</b>	<b>(0.9)</b>	<b>(48.6)</b>

The long-term expected rate of return and the assets in the schemes at 31 March 2013 are:

	Expected rate of return % pa	AWGPS	Unfunded pensions	Hartlepool	Total £m
		Fair value £m	Fair value £m	Fair value £m	
<b>2013</b>					
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	22.6	n/a	1.7	24.3
Other	0.5	58.8	n/a	-	58.8
<b>Total assets</b>		<b>1,038.8</b>	<b>-</b>	<b>19.9</b>	<b>1,058.7</b>
Fair value of scheme liabilities		(1,077.2)	(47.5)	(20.1)	(1,144.8)
<b>Deficit in the scheme</b>		<b>(38.4)</b>	<b>(47.5)</b>	<b>(0.2)</b>	<b>(86.1)</b>
Related deferred tax asset		8.8	10.9	0.1	19.8
<b>Net pension liability</b>		<b>(29.6)</b>	<b>(36.6)</b>	<b>(0.1)</b>	<b>(66.3)</b>

(c) Reconciliation of present value of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2013	(1,077.2)	(47.5)	(20.1)	(1,144.8)
Current service cost	(8.4)	-	(0.2)	(8.6)
Members' contributions	(3.7)	-	-	(3.7)
Net interest	(45.8)	(2.0)	(0.8)	(48.6)
Benefits paid	34.3	2.8	0.8	37.9
Actuarial gain	12.2	0.8	0.4	13.4
<b>At 31 March 2014</b>	<b>(1,088.6)</b>	<b>(45.9)</b>	<b>(19.9)</b>	<b>(1,154.4)</b>

	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)

## Notes to the group financial statements continued

### 20 Pension commitments continued

#### (d) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
At 1 April 2013	1,038.8	-	19.9	1,058.7
Expected return on scheme assets	43.7	-	0.7	44.4
Members' contributions	3.7	-	-	3.7
Employer's contributions	28.7	2.8	0.8	32.3
Benefits paid	(34.3)	(2.8)	(0.8)	(37.9)
Actuarial loss	(5.7)	-	(1.8)	(7.5)
<b>At 31 March 2014</b>	<b>1,074.9</b>	<b>-</b>	<b>18.8</b>	<b>1,093.7</b>
	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

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 schemes' 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 schemes' assets in the year was £36.9 million (2013: £93.9 million).

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2014</b>				
Total actuarial gains/(losses) recognised	6.5	0.8	(1.4)	5.9
<b>2013</b>				
Total actuarial losses recognised	(43.2)	(2.5)	(0.1)	(45.8)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £220.3 million (2013: £226.2 million).



(f) Analysis of amounts charged against profits

The group's pension expense for its defined benefit schemes, in accordance with FRS17, is set out below:

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2014 profit and loss account</b>				
Current service cost	(8.4)	-	(0.2)	(8.6)
<b>Charged to operating profit (see note 9)</b>	<b>(8.4)</b>	<b>-</b>	<b>(0.2)</b>	<b>(8.6)</b>
Expected return on pension scheme assets	43.7	-	0.7	44.4
Interest on pension scheme liabilities	(45.8)	(2.0)	(0.8)	(48.6)
<b>Amount charged to other finance charges (see note 5)</b>	<b>(2.1)</b>	<b>(2.0)</b>	<b>(0.1)</b>	<b>(4.2)</b>
<b>Charged to profit on ordinary activities before taxation</b>	<b>(10.5)</b>	<b>(2.0)</b>	<b>(0.3)</b>	<b>(12.8)</b>
<b>2013 profit and loss account</b>				
Current service cost	(7.8)	-	(0.3)	(8.1)
<b>Charged to operating profit (see note 9)</b>	<b>(7.8)</b>	<b>-</b>	<b>(0.3)</b>	<b>(8.1)</b>
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)
<b>Amount charged to other finance charges (see note 5)</b>	<b>(0.6)</b>	<b>(2.1)</b>	<b>(0.2)</b>	<b>(2.9)</b>
<b>Charged to profit on ordinary activities before taxation</b>	<b>(8.4)</b>	<b>(2.1)</b>	<b>(0.5)</b>	<b>(11.0)</b>

## Notes to the group financial statements continued

### 20 Pension commitments continued

#### (g) Historical information

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Plan assets	1,093.7	1,058.7	963.6	888.9	812.4
Defined benefit obligation	(1,154.4)	(1,144.8)	(1,025.6)	(981.6)	(1,008.5)
Deficit	(60.7)	(86.1)	(62.0)	(92.7)	(196.1)
Actual minus expected return on assets	(7.5)	48.2	18.2	21.8	96.0
Experience adjustments on plan liabilities	-	-	33.8	12.2	(19.0)

### 21 Commitment under operating leases

At 31 March 2014 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			
	2014		2013	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.2	0.3	0.1	0.4
Within two and five years	0.5	0.2	1.0	0.3
After five years	2.3	-	1.9	-
	3.0	0.5	3.0	0.7

### 22 Called-up share capital

	Group and company	
	2014 £m	2013 £m
<b>Allotted, issued and fully paid</b>		
10 million (2013: 10 million) ordinary shares of £1 each	10.0	10.0

## 23 Movement in shareholder's funds

Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2013	10.0	981.7	991.7
Total recognised gains and losses for the year	-	353.9	353.9
Dividends paid and committed	-	(394.4)	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>941.2</b>	<b>951.2</b>

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2013	10.0	936.0	946.0
Profit for the financial year	-	348.6	348.6
Actuarial gain recognised on the pension schemes	-	5.9	5.9
Movement on deferred tax relating to the actuarial gain on the pension schemes	-	(1.3)	(1.3)
Impact of change in tax rate on deferred tax on pension schemes	-	0.2	0.2
Dividends paid and committed	-	(394.4)	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>895.0</b>	<b>905.0</b>

## 24 Contingencies

At 31 March 2014 £142.5 million (2013: £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 £nil as at 31 March 2014 (2013: £2.3 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 2014 amounted to £6,751.6 million (2013: £6,984.1 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 (2013: £1,602.6 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 2014.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging that we may have infringed the Competition Act 1998 in respect of our approach to pricing supplies to a housing development at Milton Keynes. We served a written response to Ofwat's Statement of Objections refuting the allegations in April 2012. In September 2012 we attended an oral hearing at which we made further representations to Ofwat. On 11 July 2013, we attended a further meeting with Ofwat, which was convened by Ofwat, in order to share the latest thinking in relation to the investigation. On 2 September 2013, we submitted a response to Ofwat in relation to the issues raised in the course of the 11 July meeting. On 25 April 2014 Ofwat issued a Supplementary Statement of Objections and a press release to say that further investigation is required before a decision could be taken, but gave no indication of when this process would be concluded. Anglian Water is required to respond to the Supplementary Statement of Objections by 19 July 2014. If Ofwat ultimately rules against Anglian Water, the matter is expected to be immaterial in the context of our overall business.

As is normal for a company of this size and nature it is subject to a number of other potential claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items in these financial statements.

## Notes to the group financial statements continued

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### 25 Related party transactions

During the year to 31 March 2014, Anglian Water Services Financing Plc issued three 10-year US dollar private placements through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited. The US\$170 million and £93 million private placements were issued in conjunction with Barclays, and the US\$160 million private placement with BNP Paribas. The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 20 and 32.5 basis points on the whole amount of these transactions, equating to a total of US\$1,146,000.

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

At the balance sheet date Key Management also held various bonds issued by the group totalling £0.2 million (2013: £0.4 million).

### 26 Events after balance sheet date

The final dividend for 2013/14 of £111.0 million was approved by the Board on 22 May 2014 for payment on 30 May 2014.

### 27 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, IFM Investors and 3i.

# Independent auditors' report

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

### **Report on the financial statements**

#### Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

#### What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Anglian Water Services Limited, comprise:

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

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).

#### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Independent auditors' report continued

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### Overview of our audit approach

#### *Materiality*

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the group financial statements as a whole to be £16 million. This represents approximately 5% of profit before tax.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### *Overview of the scope of the audit*

The group comprises Anglian Water Services Limited operating as the regulated water and wastewater business and its only subsidiary company Anglian Water Services Financing Plc which issues the group's listed debt, both of which are subject to a full statutory audit by the group audit engagement team. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

#### *Areas of particular audit focus*

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 97.

<b>Area of focus</b>	<b>How the scope of our audit addressed the area of focus</b>
<p><b>Bad debt provision</b></p> <p>The bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. As economic conditions continue to be challenging, there is an ongoing risk of debt being more difficult to collect. The determination by the group of the appropriate level of provision is therefore inherently open to judgement.</p>	<p>We evaluated the appropriateness of the quantum of the bad debt provision recognised through comparison of historic collection performance for ageing categories against the level of provision.</p> <p>We also tested the validity of the ageing of customer debt to which the bad debt provision rates were applied.</p> <p>We used the group's KPIs in relation to bad debt risk, including leading and lagging indicators, to assess ongoing collection performance against the judgements made in the provision.</p>
<p><b>Measured income estimation</b></p> <p>The recognised revenue from customers with water meters is estimated to assess the amount of water supplied to customers between the date of the last meter reading and the year end. (Refer also to note 1(b) to the financial statements.)</p>	<p>We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements.</p> <p>We also evaluated and tested the key assumptions used in the estimation of unbilled revenue, including average water and sewerage usage by tariff and the comparison against the changes in amount of water input into the distribution network.</p> <p>We compared the level of the accrual with last year and expectations based on price changes, increases in the number of meters and the specific profile of billings/meter readings around the year end.</p> <p>We used the output from other corroboration tools employed by the group including a mass simulation calculation as at the year end, performed by the SAP billing system to assess the accuracy of the estimate.</p> <p>We also tested the year end accrued revenue to subsequent billing for approximately 100,000 customer bills using Computer Assisted Auditing Techniques.</p>
<p><b>Cost capitalisation</b></p> <p>The allocation of costs between capital and non-capital spend is subjective. Given the magnitude of capital spend, there is a risk that incorrect classification could give rise to a significant misstatement.</p>	<p>We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and existence of costs capitalised in the financial statements.</p> <p>We tested capital additions for a sample of capital projects agreeing costs to supporting evidence.</p> <p>We also evaluated and tested the levels of own work capitalised and assessed if such costs were appropriately categorised as capital.</p>
<p><b>Fraud in revenue recognition</b></p> <p>ISAs (UK &amp; Ireland) presume there is a risk of fraud in revenue recognition, because of the pressure management may feel to achieve the planned results.  (Refer also to the measured income estimation area of focus.)</p>	<p>As the foundation of the evidence we obtained regarding the revenue recognised during the year, we evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements. We also tested journal entries posted to revenue accounts to identify unusual or irregular items.</p>
<p><b>Risk of management override of internal controls</b></p> <p>ISAs (UK &amp; Ireland) require that we consider this.</p>	<p>We assessed the overall control environment of the group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the group's internal audit function. We tested manual journal entries, including material consolidation journals. We also examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.</p>

## Independent auditors' report continued

### Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 144, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern, as if the parent company were a premium listed company. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group and parent company have adequate resources to remain in operation, and that the Directors intend them to do so for at least one year from the date the financial statements were signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and parent company's ability to continue as a going concern.

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

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

### Opinion on additional disclosures

#### Directors' Remuneration Report

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### Corporate Governance Statement

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the parent company were a premium listed company. On page 146 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's performance, business model and strategy. On page 100, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.



#### Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and parent company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

#### **Matters on which we have agreed to report by exception**

##### Corporate Governance Statement

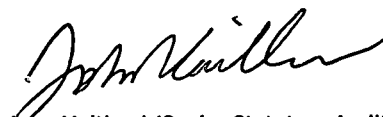
The parent company's voluntary Corporate Governance Statement includes details of the parent company's compliance with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the parent company's compliance with the nine provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the parent company were a premium listed company. We have nothing to report having performed our review.

#### **Responsibilities for the financial statements and the audit**

Our responsibilities and those of the Directors  
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with 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.



**John Maitland (Senior Statutory Auditor)**

**For and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors

Birmingham  
30 May 2014

## Regulatory accounts and required regulatory information

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The regulatory accounts and required regulatory information on pages 190 to 216 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 219.

## Statement of Directors' responsibilities for regulatory information

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

This additionally requires the Directors to:

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

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

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

	2014			2013		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Turnover</b>	<b>1,197.9</b>	<b>16.1</b>	<b>1,214.0</b>	1,147.0	16.0	1,163.0
Operating costs	(444.0)	(8.4)	(452.4)	(439.5)	(7.7)	(447.2)
Infrastructure renewals charge	(90.4)	-	(90.4)	(87.5)	-	(87.5)
Historical cost depreciation	(180.7)	(0.7)	(181.4)	(174.5)	(0.4)	(174.9)
Operating income	1.2	-	1.2	1.4	-	1.4
<b>Operating profit</b>	<b>484.0</b>	<b>7.0</b>	<b>491.0</b>	446.9	7.9	454.8
Net interest payable	(139.1)	-	(139.1)	(153.7)	-	(153.7)
<b>Profit on ordinary activities before taxation</b>	<b>344.9</b>	<b>7.0</b>	<b>351.9</b>	293.2	7.9	301.1
Taxation:						
- current	(20.8)	(1.6)	(22.4)	(28.3)	(1.9)	(30.2)
- deferred	19.1	-	19.1	24.3	-	24.3
<b>Profit on ordinary activities after taxation</b>	<b>343.2</b>	<b>5.4</b>	<b>348.6</b>	289.2	6.0	295.2
<b>Profit for the year</b>	<b>343.2</b>	<b>5.4</b>	<b>348.6</b>	289.2	6.0	295.2
Dividends	(389.0)	(5.4)	(394.4)	(351.2)	(6.0)	(357.2)
<b>Transfer from reserves</b>	<b>(45.8)</b>	<b>-</b>	<b>(45.8)</b>	(62.0)	-	(62.0)

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

for the year ended 31 March

	2014 £m	2013 £m
<b>Profit on ordinary activities after taxation</b>	<b>343.2</b>	289.2
Actuarial gain/(loss) recognised on the pension schemes	5.9	(45.8)
Current tax relating to the actuarial loss on the pension schemes	-	5.2
Movement on deferred tax relating to the actuarial (gain)/loss on the pension schemes	(1.3)	5.8
Impact of change in tax rate on deferred tax on pension schemes	0.2	(0.2)
<b>Total recognised gains and losses for the year</b>	<b>348.0</b>	254.2

## Regulatory historical cost balance sheet

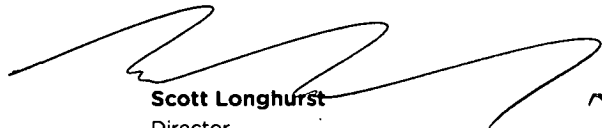
as at 31 March

	2014			2013		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	5,126.6	12.9	5,139.5	4,973.3	10.2	4,983.5
Investments						
- loan to group company	1,602.6	-	1,602.6	1,602.6	-	1,602.6
- other	-	-	-	-	-	-
<b>Total fixed assets</b>	<b>6,729.2</b>	<b>12.9</b>	<b>6,742.1</b>	<b>6,575.9</b>	<b>10.2</b>	<b>6,586.1</b>
<b>Current assets</b>						
Infrastructure renewals prepayment	29.5	-	29.5	50.6	-	50.6
Other current assets	1,193.8	1.6	1,195.4	1,556.2	1.9	1,558.1
<b>Total current assets</b>	<b>1,223.3</b>	<b>1.6</b>	<b>1,224.9</b>	<b>1,606.8</b>	<b>1.9</b>	<b>1,608.7</b>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(69.7)	-	(69.7)	(649.3)	-	(649.3)
Other creditors	(633.2)	(14.5)	(647.7)	(645.5)	(12.1)	(657.6)
<b>Total creditors: amounts falling due within one year</b>	<b>(702.9)</b>	<b>(14.5)</b>	<b>(717.4)</b>	<b>(1,294.8)</b>	<b>(12.1)</b>	<b>(1,306.9)</b>
<b>Net current assets/(liabilities)</b>	<b>520.4</b>	<b>(12.9)</b>	<b>507.5</b>	<b>312.0</b>	<b>(10.2)</b>	<b>301.8</b>
<b>Total assets less current liabilities</b>	<b>7,249.6</b>	<b>-</b>	<b>7,249.6</b>	<b>6,887.9</b>	<b>-</b>	<b>6,887.9</b>
<b>Creditors: amounts falling due after one year</b>						
Borrowings	(6,116.0)	-	(6,116.0)	(5,690.3)	-	(5,690.3)
Other creditors	-	-	-	(2.3)	-	(2.3)
<b>Total creditors: amounts falling due after one year</b>	<b>(6,116.0)</b>	<b>-</b>	<b>(6,116.0)</b>	<b>(5,692.6)</b>	<b>-</b>	<b>(5,692.6)</b>
Provisions for liabilities and charges	(228.6)	-	(228.6)	(249.3)	-	(249.3)
<b>Net assets employed</b>	<b>905.0</b>	<b>-</b>	<b>905.0</b>	<b>946.0</b>	<b>-</b>	<b>946.0</b>
<b>Capital and reserves</b>						
Called up share capital	10.0	-	10.0	10.0	-	10.0
Profit and loss account	895.0	-	895.0	936.0	-	936.0
<b>Capital and reserves</b>	<b>905.0</b>	<b>-</b>	<b>905.0</b>	<b>946.0</b>	<b>-</b>	<b>946.0</b>

The financial statements were approved by the Board of Directors on 30 May 2014 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

	2014 Statutory accounts £m	2014 Regulatory accounts £m	Explanation
<b>Profit and loss account</b>			
Turnover	1,214.0	1,214.0	No difference
Operating profit	491.0	491.0	No difference
<b>Balance sheet</b>			
Fixed assets			
Tangible fixed assets (net book value)	5,169.0	5,139.5	The difference of £29.5 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 Guideline 3.07.
Current assets			
Infrastructure renewals prepayment	-	29.5	
Deferred income - grants and contributions			
Short-term and long-term other creditors	(143.4)	-	Deferred grants and contributions within the statutory accounts are analysed between creditors: amounts falling due within one year (£8.7 million) and amounts falling due after more than one year (£134.7 million). This is in contrast to the regulatory accounts, which show total deferred grants and contributions of £143.4 million within provisions for liabilities and charges.
Provisions for liabilities and charges	-	(143.4)	

## Additional information required by the Licence

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### 1 General

The Company's activities are regulated by the conditions of a Licence granted to the Company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function; these business activities are referred to as non-appointed business (see note 7 on page 197).

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 190 and 192. A current cost profit and loss account and current cost balance sheet for the appointed business is shown on pages 202 and 203. Other current cost disclosures appear on pages 204 to 215. Additional information required by the Licence is shown on pages 194 to 201.

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 193.

### 2 Protection of the regulated business

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

### 3 Arm's-length trading

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of Condition F of the Licence throughout the year.



#### 4 Historical cost accounting policies

The accounting policies are set out in the statutory financial statements, except that, as noted on page 194, under the Regulatory Accounting Guidelines 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 Guideline 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 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

### 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, we will apply the appropriate Sewerage Unmeasured Tariff to that period, raise appropriate retrospective bills and recognise revenue 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.

The debt written off in the current year was £20.4 million (2013: £19.7 million). There have been no changes to either the provisioning or debt write-off policies during the year.

### 5 Income disclosures

In accordance with Regulatory Accounting Guideline 3.07 we highlight the following comments in respect of turnover for the year:

- (i) Appointed turnover for the year ended 31 March 2013 included a measured income accrual of £243.7 million (year ended 31 March 2012: £173.1 million). The value of billing recognised in the year ended 31 March 2014 for consumption in the prior year was £226.2 million. This has resulted in the recognition in the current year's turnover of an estimation difference for the prior year of £17.5 million (2013: £12.4 million), representing 2.2% of current year measured turnover (2013: 1.0%) and within acceptable tolerances for accounting estimates.
- (ii) A change in billing frequency during the year ended 31 March 2013 has resulted in an increase in the value of the measured income accrual against historical levels. Previously, household and non-household customers paying by direct debit were billed every six months. From August 2012, these customers have been transitioned to annual bills. As a result, the average charge period accrued for these customers has increased from three to six months. The measured income accrual in the current year is 34.1% (2013: 35.5%) of measured turnover.

- (iii) Turnover for the year ended 31 March 2014 amounted to £1,197.9 million (2013: £1,147.0 million) compared to a Final Determination target of £1,190.6 million (2013: £1,153.2 million), an over-performance of £7.3 million (2013: under-performance of £6.2 million). This over-performance is primarily due to a lower than expected metering programme, partially offset by reductions in the number of new customers and non-household demand, compared to the forecasts made in the Final Determination.
- On the whole 'meter switching' has been below the level assumed due to a number of factors. These include lower price increases in the Final Determination compared to the Business Plan submission, which reduced interest in switching to measured charges for lower consumption households. It also includes the slower than anticipated switching rate by customers on the enhanced programme. This programme covers the metering of an area coupled with a customer communication programme to promote switching. These customers have on average waited for at least two years' worth of actual consumption data before making a decision to switch; a longer period for reflection and review than we anticipated. This results in smaller than expected revenue losses, which occur when customers opt for a meter
  - The number of billed properties is below the level assumed in the Final Determination by approximately 27,000 and 33,000 for water and sewerage respectively. This is primarily as a result of the slower than anticipated recovery in rates of new development
  - The current year has seen a return to more normal levels of consumption compared to the prior year, driven by a warm and dry summer in 2013. However, non-household demand has only partly recovered to expected levels with the economic downturn continuing to impact these customers, and as a result volumes remain 5% below the levels forecast in the Final Determination.

#### **6 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 Regulatory Accounting Guideline 3.07, details of Directors' pay can be found in the Remuneration Report on page 104.

#### **7 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.

#### **8 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.
- (b) Capital costs, and hence the related depreciation charges, are incurred directly by the specific service and have not required allocation.

## Additional information required by the Licence continued

### 9 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 £0.6 million were outstanding from other group companies at 31 March 2014 (2013: £48.0 million).
- (b) An amount payable of £45.1 million was owed to Anglian Water Services Financing Plc at 31 March 2014 (2013: £8.3 million).

Sums borrowed, including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2014, were:

Type of loan	Principal amount (iv) £m	Repayment date	Interest rate %
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	5.372
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
Fixed rate	7.0	2023	3.605
Fixed rate	93.0	2023	3.537
Fixed rate	100.2	2023	4.9506
Index-linked (i)	227.2	2020	4.125
Index-linked (i)	288.8	2032	3.070
Index-linked (i)	87.1	2032	3.070
Index-linked (i)	108.3	2024	3.666
Index-linked (i)	535.7	2035	2.400
Index-linked (i)	64.8	2046	1.700
Index-linked (i)	64.6	2046	1.700
Index-linked (i)	51.9	2056	1.7146
Index-linked (i)	64.8	2056	1.6777
Index-linked (i)	77.8	2049	1.7903
Index-linked (i)	129.2	2057	1.3784
Index-linked (i)	64.6	2056	1.3825
Index-linked (i)	92.1	2062	1.449
<b>Sub-total carried forward</b>	<b>4,104.6</b>		

Type of loan	Principal amount (iv) £m	Repayment date	Interest rate %
<b>Sub-total brought forward</b>	<b>4,104.6</b>		
Index-linked (i)	61.5	2055	1.520
Index-linked (i)	59.5	2019	1.626
Index-linked (i)	58.5	2020	1.300
Index-linked (i)	149.9	2045	2.262
Index-linked (i)	25.0	2021	1.270
Index-linked (i)	79.8	2027	0.530
Index-linked (i)	79.8	2027	0.790
Index-linked (i)	15.7	2022	1.370
Index-linked (i)	52.3	2033	2.050
Index-linked (i)	154.9	2028	0.000
Index-linked (i)	35.9	2042	1.141
Index-linked (i)	65.2	2029	0.410
Floating rate	250.0	2015	LIBOR plus 0.375
Floating rate (iii)	75.0	2017/2040	LIBOR plus 0.682
Floating rate	100.0	2057	LIBOR plus 0.340
Floating rate (iii)	65.9	2018/2037	LIBOR plus 0.530
Floating rate	110.0	2043	LIBOR plus 0.850
Floating rate	25.1	2038	LIBOR plus 1.130
Floating rate	74.1	2021	LIBOR plus 0.8875
Floating rate	197.2	2021	LIBOR plus 2.64056
Floating rate	100.0	2026	LIBOR plus 2.16329
Floating rate	103.5	2023	LIBOR plus 1.00688
Index-linked swaps (ii)	29.0	2024	-
Index-linked swaps (ii)	33.8	2030	-
Index-linked swaps (ii)	28.3	2057	-
Index-linked swaps (ii)	15.1	2059	-
Index-linked swaps (ii)	10.2	2043	-
Index-linked swaps (ii)	0.3	2061	-
Swaption	-	2046	-
Swaption	-	2046	-
	<b>6,160.1</b>		

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.

## Additional information required by the Licence continued

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

#### (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 remainder of the current regulatory period. 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 whilst 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 £389.0 million is payable for the year (2013: £351.2 million). Of this dividend, £192.3 million (2013: £192.7 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 (2013: £1,602.6 million) (see note 9(a) on page 198).

#### (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 2014 amounted to £6,751.6 million (2013: £6,984.1 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 (2013: £1,602.6 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 2014 (2013: £nil).

#### (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	1.0
Corporate responsibility and communications	AWG Group Limited	Actual costs	0.5
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	0.1
Trade effluent charges	Alpheus Environmental Ltd	Actual costs	0.1
Sewerage, tankering and transport services	AWG Group Limited and Alpheus Environmental Ltd	Actual costs	0.1
			2.8

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	0.9
Internal audit services	AWG Group Limited	-	Negotiated	0.5
Insurance administration	AWG Group Limited	-	Negotiated	0.7
Taxation services	AWG Group Limited	-	Negotiated	0.2
External audit services	AWG Group Limited	-	Negotiated	0.2
Building rental	AWG Group Limited	-	Pass through	0.1
10-year office lease	Ambury Developments	0.5	Other market testing	0.2
Bulk purchase of water	Ardleigh Reservoir Committee	1.2	Actual costs	0.8
				3.6

(f) Charitable and political donations

During the year, the business donated £40,000 (2013: £40,000) to WaterAid, its recognised charity.

No political donations were made (2013: £nil).

The Company made available £0.61 million (2013: £0.65 million) to the Anglian Water Assistance Fund, which paid a total of £0.5 million (2013: £0.5 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 K3.1 of the Licence throughout the year.

## Current cost profit and loss account for the appointed business

for the year ended 31 March

	2014			2013		
	Water £m	Sewerage £m	Total £m	Water £m	Sewerage £m	Total £m
<b>Turnover</b>						
Unmeasured						
- household	121.1	191.6	312.7	127.0	197.9	324.9
- non-household	0.7	1.4	2.1	0.8	1.6	2.4
Measured						
- household	239.9	390.2	630.1	209.2	348.3	557.5
- non-household	77.5	77.0	154.5	74.8	92.7	167.5
Trade effluent	-	7.3	7.3	-	7.1	7.1
Bulk supplies/inter-company payments	7.7	1.7	9.4	6.3	1.7	8.0
Third-party services (including non-potable water)	12.2	-	12.2	12.9	-	12.9
Other sources	36.2	33.4	69.6	34.8	31.9	66.7
<b>Total turnover</b>	<b>495.3</b>	<b>702.6</b>	<b>1,197.9</b>	<b>465.8</b>	<b>681.2</b>	<b>1,147.0</b>
<b>Current cost operating costs</b>						
- wholesale	(313.8)	(463.2)	(777.0)	(307.7)	(452.3)	(760.0)
- retail	(36.5)	(45.8)	(82.3)	(47.1)	(39.4)	(86.5)
Operating income	0.3	0.2	0.5	0.4	0.1	0.5
Working capital adjustment	(0.2)	(0.2)	(0.4)	(0.6)	(0.7)	(1.3)
<b>Current cost operating profit</b>	<b>145.1</b>	<b>193.6</b>	<b>338.7</b>	<b>110.8</b>	<b>188.9</b>	<b>299.7</b>
Net interest			(139.1)			(153.7)
Financing adjustment			10.2			14.1
<b>Current cost profit before taxation</b>			<b>209.8</b>			<b>160.1</b>
Net revenue movement in/(out) of tariff basket	-	0.7	0.7	(1.0)	(0.1)	(1.1)
Back billing amount identified	-	-	-	-	-	-

The notes on pages 205 to 215 form part of these current cost financial statements.



## Current cost balance sheet for the appointed business

for the year ended 31 March

	2014 £m	2013 £m
<b>Fixed assets</b>		
Tangible assets	41,270.0	40,242.3
Third-party contributions since 31 March 1990	(9,660.7)	(9,396.2)
Investments		
- loan to group company	1,602.6	1,602.6
- other	-	-
<b>Total fixed assets</b>	<b>33,211.9</b>	<b>32,448.7</b>
<b>Current assets</b>		
Infrastructure renewals prepayment	29.5	50.6
Other current assets	1,193.8	1,556.2
<b>Total current assets</b>	<b>1,223.3</b>	<b>1,606.8</b>
<b>Creditors: amounts falling due within one year</b>		
Short-term borrowings	(69.7)	(649.3)
Other creditors	(634.5)	(646.7)
<b>Total creditors falling due within one year</b>	<b>(704.2)</b>	<b>(1,296.0)</b>
<b>Net current assets</b>	<b>519.1</b>	<b>310.8</b>
<b>Creditors: amounts falling due after more than one year</b>		
Loans and other borrowings	(6,116.0)	(5,690.3)
Other creditors	-	(2.3)
<b>Total creditors falling due after more than one year</b>	<b>(6,116.0)</b>	<b>(5,692.6)</b>
Provision for liabilities and charges	(85.2)	(107.9)
<b>Net assets employed</b>	<b>27,529.8</b>	<b>26,959.0</b>
<b>Capital and reserves</b>		
Called-up share capital	10.0	10.0
Profit and loss account	(601.1)	(425.0)
Current cost reserve	28,120.9	27,374.0
<b>Total capital and reserves</b>	<b>27,529.8</b>	<b>26,959.0</b>

The notes on pages 205 to 215 form part of these current cost financial statements.

## Current cost cash flow statement

for the year ended 31 March

	2014 Appointed £m	2013 Appointed £m
<b>Current cost operating profit</b>	<b>338.7</b>	299.7
Working capital adjustment	0.4	1.3
Movement in working capital	(10.9)	0.5
Current cost depreciation	325.1	319.5
Current cost profit on sale of fixed assets	(0.5)	(0.5)
Infrastructure renewals charge	90.4	87.5
Movement in provision	(24.0)	(24.8)
<b>Net cash flow from operating activities</b>	<b>719.2</b>	683.2
Returns on investments and servicing of finance	9.8	(86.3)
Taxation received	-	2.1
Payments to other Anglian Water Group Limited group undertakings	-	(12.9)
Tax settlement from non-appointed business	1.6	1.9
<b>Capital expenditure and financial investment</b>		
Gross cost of purchase of fixed assets	(395.4)	(441.9)
Receipts of grants and contributions	28.8	21.9
Infrastructure renewals expenditure	(69.0)	(82.9)
Disposal of fixed assets	1.7	1.9
Movements on long-term group loans to group companies	-	6.5
<b>Net cash outflow from investing activities</b>	<b>(433.9)</b>	(494.5)
Equity dividends paid	(436.5)	(304.3)
Net cash inflow/(outflow) from management of liquid resources	267.0	(305.4)
<b>Net cash inflow/(outflow) before financing</b>	<b>127.2</b>	(516.2)
<b>Net cash (outflow)/inflow from financing</b>	<b>(251.0)</b>	590.7
<b>(Decrease)/increase in cash</b>	<b>(123.8)</b>	74.5

# Notes to the current cost financial statements

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## 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 195 as required by Regulatory Directive (RD) 05/08.

### (c) 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 Regulatory Accounting Guideline 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.

The cost allocations have been updated in accordance with Ofwat's Information Notice 14/05 issued in January 2014. This has not had a material impact on the allocation of costs between retail and wholesale overall.

Our accounts have been drawn up in accordance with the accounting separation methodology statement published on our website.

### (d) Tangible fixed assets

Tangible fixed assets have been valued in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values) on a Modern Equivalent Asset (MEA) basis.

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

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

## Notes to the current cost financial statements continued

### 1 Current cost accounting policies continued

#### (d) Tangible fixed assets continued

##### (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.

#### (e) 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.

#### (f) 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.

#### (g) 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.

## 2 Operating cost analysis

for the year ended 31 March 2014 (wholesale business only)

	Water					Sewerage					Water and sewerage
	Resources £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	Sewerage sub-total £m	Total £m
<b>Operating expenditure</b>											
Power	6.7	3.2	5.4	10.7	26.0	7.1	19.7	2.5	-	29.3	55.3
Income treated as negative expenditure	-	-	(0.1)	(0.2)	(0.3)	-	(0.3)	(3.3)	-	(3.6)	(3.9)
Service charges	10.4	0.3	-	-	10.7	1.1	5.6	-	-	6.7	17.4
Bulk supply imports	-	-	1.2	-	1.2	-	-	-	-	-	1.2
Other operating expenditure	12.0	2.7	22.1	44.6	81.4	38.7	56.8	53.6	7.2	156.3	237.7
Local authority rates	2.5	0.4	4.6	23.2	30.7	0.1	19.4	4.0	-	23.5	54.2
<b>Total operating expenditure excluding third-party services</b>	<b>31.6</b>	<b>6.6</b>	<b>33.2</b>	<b>78.3</b>	<b>149.7</b>	<b>47.0</b>	<b>101.2</b>	<b>56.8</b>	<b>7.2</b>	<b>212.2</b>	<b>361.9</b>
<b>Capital maintenance</b>											
Infrastructure renewals charge	4.2	0.2	-	44.4	48.8	41.6	-	-	-	41.6	90.4
Current cost depreciation	11.9	0.9	55.1	41.2	109.1	47.0	138.5	25.8	1.5	212.8	321.9
Amortisation of deferred credits	-	-	(2.8)	(0.7)	(3.5)	(0.2)	(5.1)	-	-	(5.3)	(8.8)
<b>Total capital maintenance excluding third-party services</b>	<b>16.1</b>	<b>1.1</b>	<b>52.3</b>	<b>84.9</b>	<b>154.4</b>	<b>88.4</b>	<b>133.4</b>	<b>25.8</b>	<b>1.5</b>	<b>249.1</b>	<b>403.5</b>
<b>Third-party services</b>											
Operating expenditure	1.5	1.1	1.2	1.6	5.4	-	0.5	0.2	-	0.7	6.1
Current cost depreciation	-	-	4.3	-	4.3	-	1.2	-	-	1.2	5.5
<b>Total operating costs</b>	<b>49.2</b>	<b>8.8</b>	<b>91.0</b>	<b>164.8</b>	<b>313.8</b>	<b>135.4</b>	<b>236.3</b>	<b>82.8</b>	<b>8.7</b>	<b>463.2</b>	<b>777.0</b>

Notes to the current cost financial statements continued

2 Operating cost analysis continued  
for the year ended 31 March 2013 (wholesale business only)

	Water					Sewerage				Water and sewerage	
	Resources £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	Sewerage sub-total £m	Total £m
<b>Operating expenditure</b>											
Power	6.1	2.9	5.1	9.9	24.0	6.9	17.8	4.1	-	28.8	52.8
Income treated as negative expenditure	-	(0.1)	(0.1)	(0.2)	(0.4)	-	(0.4)	(2.4)	-	(2.8)	(3.2)
Service charges	10.3	0.4	-	-	10.7	1.2	5.7	-	-	6.9	17.6
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	223.0
Local authority rates	3.1	0.5	6.1	31.1	40.8	0.1	19.3	3.7	-	23.1	63.9
<b>Total operating expenditure excluding third-party services</b>	<b>28.0</b>	<b>5.6</b>	<b>33.0</b>	<b>80.4</b>	<b>147.0</b>	<b>49.7</b>	<b>99.0</b>	<b>53.3</b>	<b>6.3</b>	<b>208.3</b>	<b>355.3</b>
<b>Capital maintenance</b>											
Infrastructure renewals charge	4.5	0.3	-	46.6	51.4	36.1	-	-	-	36.1	87.5
Current cost depreciation	11.6	0.9	53.1	38.3	103.9	47.0	138.6	23.9	1.6	211.1	315.0
Amortisation of deferred credits	-	-	(2.8)	(0.6)	(3.4)	(0.3)	(4.8)	(0.1)	-	(5.2)	(8.6)
<b>Total capital maintenance excluding third-party services</b>	<b>16.1</b>	<b>1.2</b>	<b>50.3</b>	<b>84.3</b>	<b>151.9</b>	<b>82.8</b>	<b>133.8</b>	<b>23.8</b>	<b>1.6</b>	<b>242.0</b>	<b>393.9</b>
<b>Third-party services</b>											
Operating expenditure	1.5	0.9	1.1	1.1	4.6	-	0.4	0.4	-	0.8	5.4
Current cost depreciation	-	-	4.2	-	4.2	-	1.2	-	-	1.2	5.4
<b>Total operating costs</b>	<b>45.6</b>	<b>7.7</b>	<b>88.6</b>	<b>165.8</b>	<b>307.7</b>	<b>132.5</b>	<b>234.4</b>	<b>77.5</b>	<b>7.9</b>	<b>452.3</b>	<b>760.0</b>

for the year ended 31 March 2014 (retail business only)

	Household £m	Non- household £m	Total £m
<b>Operating expenditure</b>			
Customer services	13.7	2.3	16.0
Debt management	8.3	0.7	9.0
Doubtful debts	30.0	2.3	32.3
Meter reading	3.2	0.4	3.6
Services to developers	-	0.2	0.2
Other operating expenditure	11.9	2.6	14.5
Local authority rates	0.2	-	0.2
<b>Total operating expenditure</b>	<b>67.3</b>	<b>8.5</b>	<b>75.8</b>
<b>Capital maintenance</b>			
Current cost depreciation	5.5	1.0	6.5
<b>Total capital maintenance</b>	<b>5.5</b>	<b>1.0</b>	<b>6.5</b>
<b>Total operating costs</b>	<b>72.8</b>	<b>9.5</b>	<b>82.3</b>
<b>Debt written off</b>	<b>19.1</b>	<b>1.3</b>	<b>20.4</b>

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
<b>Total operating expenditure</b>	<b>71.2</b>	<b>7.6</b>	<b>78.8</b>
<b>Capital maintenance</b>			
Current cost depreciation	6.7	1.0	7.7
<b>Total capital maintenance</b>	<b>6.7</b>	<b>1.0</b>	<b>7.7</b>
<b>Total operating costs</b>	<b>77.9</b>	<b>8.6</b>	<b>86.5</b>
<b>Debt written off</b>	<b>18.2</b>	<b>1.5</b>	<b>19.7</b>

### 3 Current cost analysis of fixed assets

(wholesale business only)

	Water					Sewerage					Water and sewerage
	Resources £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	Sewerage sub-total £m	Total £m
<b>Non-infrastructure assets</b>											
<b>Gross replacement cost</b>											
At 1 April 2013	340.9	31.0	1,659.0	1,379.8	3,410.7	2,398.2	4,536.3	635.4	20.7	7,590.6	11,001.3
RPI adjustment	8.4	0.8	40.7	33.8	83.7	58.8	111.2	15.6	0.5	186.1	269.8
Disposals	(0.5)	(0.1)	(2.0)	(14.1)	(16.7)	(2.8)	(3.1)	(2.1)	(0.4)	(8.4)	(25.1)
Additions <sup>1</sup>	11.4	1.0	59.4	39.4	111.2	27.9	90.5	49.6	1.4	169.4	280.6
<b>At 31 March 2014</b>	<b>360.2</b>	<b>32.7</b>	<b>1,757.1</b>	<b>1,438.9</b>	<b>3,588.9</b>	<b>2,482.1</b>	<b>4,734.9</b>	<b>698.5</b>	<b>22.2</b>	<b>7,937.7</b>	<b>11,526.6</b>
<b>Depreciation</b>											
At 1 April 2013	(212.5)	(20.2)	(1,047.6)	(784.4)	(2,064.7)	(1,658.5)	(3,010.9)	(370.3)	(16.0)	(5,055.7)	(7,120.4)
RPI adjustment	(5.2)	(0.5)	(25.7)	(19.2)	(50.6)	(40.6)	(73.9)	(9.1)	(0.4)	(124.0)	(174.6)
Disposals	0.5	0.1	1.9	14.0	16.5	2.5	3.0	2.1	0.4	8.0	24.5
Charge for year	(11.9)	(0.9)	(59.4)	(41.2)	(113.4)	(47.0)	(139.7)	(25.8)	(1.5)	(214.0)	(327.4)
<b>At 31 March 2014</b>	<b>(229.1)</b>	<b>(21.5)</b>	<b>(1,130.8)</b>	<b>(830.8)</b>	<b>(2,212.2)</b>	<b>(1,743.6)</b>	<b>(3,221.5)</b>	<b>(403.1)</b>	<b>(17.5)</b>	<b>(5,385.7)</b>	<b>(7,597.9)</b>
<b>Net book value at 31 March 2014</b>	<b>131.1</b>	<b>11.2</b>	<b>626.3</b>	<b>608.1</b>	<b>1,376.7</b>	<b>738.5</b>	<b>1,513.4</b>	<b>295.4</b>	<b>4.7</b>	<b>2,552.0</b>	<b>3,928.7</b>
Net book value at 1 April 2013	128.4	10.8	611.4	595.4	1,346.0	739.7	1,525.4	265.1	4.7	2,534.9	3,880.9
<b>Infrastructure assets</b>											
<b>Gross replacement cost</b>											
At 1 April 2013	470.3	116.1	-	7,087.5	7,673.9	28,495.1	172.5	-	-	28,667.6	36,341.5
RPI adjustment	11.5	2.9	-	173.8	188.2	698.9	4.2	-	-	703.1	891.3
Disposals	(0.2)	-	-	-	(0.2)	-	-	-	-	-	(0.2)
Additions <sup>1</sup>	0.5	0.3	-	33.9	34.7	55.0	-	-	-	55.0	89.7
<b>At 31 March 2014</b>	<b>482.1</b>	<b>119.3</b>	<b>-</b>	<b>7,295.2</b>	<b>7,896.6</b>	<b>29,249.0</b>	<b>176.7</b>	<b>-</b>	<b>-</b>	<b>29,425.7</b>	<b>37,322.3</b>

<sup>1</sup> Includes adopted assets of £20.1 million.

Notes to the current cost financial statements continued



(retail business only)

	Household £m	Non- household £m	Total £m
<b>Non-infrastructure assets</b>			
<b>Gross replacement cost</b>			
At 1 April 2013	113.1	31.1	144.2
RPI adjustment	2.8	0.7	3.5
Disposals	(1.7)	(0.3)	(2.0)
Additions	4.3	0.8	5.1
<b>At 31 March 2014</b>	<b>118.5</b>	<b>32.3</b>	<b>150.8</b>
<b>Depreciation</b>			
At 1 April 2013	(98.4)	(25.9)	(124.3)
RPI adjustment	(2.4)	(0.6)	(3.0)
Disposals	1.7	0.3	2.0
Charge for year	(5.5)	(1.0)	(6.5)
<b>At 31 March 2014</b>	<b>(104.6)</b>	<b>(27.2)</b>	<b>(131.8)</b>
<b>Net book value at 31 March 2014</b>	<b>13.9</b>	<b>5.1</b>	<b>19.0</b>
Net book value at 1 April 2013	14.7	5.2	19.9

## Notes to the current cost financial statements continued

### 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 FRS15 for tangible fixed assets. However, for the purposes of the regulatory financial statements, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the tangible fixed assets shown in the statutory financial statements is set out below:

	Tangible fixed assets £m
<b>Cost</b>	
At 31 March 2014 per regulatory financial statements	48,999.7
Adjustment to opening balance at 31 March	(39,601.0)
Infrastructure renewals expenditure capitalised in the year	69.0
<b>At 31 March 2014 per statutory financial statements<sup>1</sup></b>	<b>9,467.7</b>
<b>Grants and contributions</b>	
At 31 March 2014 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(292.5)
<b>At 31 March 2014 per statutory financial statements</b>	<b>(292.5)</b>
<b>Depreciation</b>	
At 31 March 2014 per regulatory financial statements	(7,729.7)
Adjustment to opening balance at 31 March	3,817.1
Depreciation charge for infrastructure renewals expenditure	(93.6)
<b>At 31 March 2014 per statutory financial statements<sup>1</sup></b>	<b>(4,006.2)</b>
<b>Net book value</b>	
At 31 March 2014 per regulatory financial statements	41,270.0
Adjustment to opening balance at 31 March	(36,076.4)
Infrastructure renewals expenditure capitalised in the year	69.0
Depreciation charge for infrastructure renewals expenditure	(93.6)
<b>At 31 March 2014 per statutory financial statements<sup>1</sup></b>	<b>5,169.0</b>
<b>Infrastructure renewals prepayment</b>	
At 31 March 2014 per regulatory financial statements	29.5
Less infrastructure renewals prepayment	(29.5)
<b>At 31 March 2014 per statutory financial statements</b>	<b>-</b>

<sup>1</sup> The statutory financial statements include non-appointed fixed assets with net book value at 31 March 2014 of £12.9 million (2013: £10.2 million).

#### 4 Analysis of capital expenditure, grants and land sales

for the year ended 31 March

	2014			2013		
	Gross £m	Grants and contributions £m	Net £m	Gross £m	Grants and contributions £m	Net £m
<b>Capital expenditure - water</b>						
<b>Base</b>						
Infrastructure renewals expenditure (IRE)	37.3	-	37.3	48.7	-	48.7
Maintenance non-infrastructure (MNI)	61.7	-	61.7	83.4	-	83.4
<b>Enhancements</b>						
Infrastructure enhancements	34.6	(7.1)	27.5	32.5	(8.2)	24.3
Non-infrastructure enhancements	52.0	(4.4)	47.6	55.7	(4.2)	51.5
<b>Total capital expenditure - water</b>	<b>185.6</b>	<b>(11.5)</b>	<b>174.1</b>	<b>220.3</b>	<b>(12.4)</b>	<b>207.9</b>
<b>Grants and contributions - water</b>						
Developer contributions (ie enhancement requisitions, grants and contributions)		(6.4)			(7.4)	
Infrastructure charge receipts - new connections		(5.1)			(5.0)	
<b>Total grants and contributions - water</b>		<b>(11.5)</b>			<b>(12.4)</b>	
<b>Capital expenditure - sewerage</b>						
<b>Base</b>						
Infrastructure renewals expenditure (IRE)	31.8	(0.3)	31.5	34.2	(0.2)	34.0
Maintenance non-infrastructure (MNI)	97.1	-	97.1	124.6	-	124.6
<b>Enhancements</b>						
Infrastructure enhancements	37.3	(5.7)	31.6	41.3	(3.7)	37.6
Non-infrastructure enhancements	72.6	(5.5)	67.1	76.1	(4.7)	71.4
<b>Total capital expenditure - sewerage</b>	<b>238.8</b>	<b>(11.5)</b>	<b>227.3</b>	<b>276.2</b>	<b>(8.6)</b>	<b>267.6</b>
<b>Grants and contributions - sewerage</b>						
Developer contributions (ie enhancement requisitions, grants and contributions)		(4.7)			(3.0)	
Infrastructure charge receipts - new connections		(6.5)			(5.6)	
Other contributions		(0.3)			-	
<b>Total grants and contributions - sewerage</b>		<b>(11.5)</b>			<b>(8.6)</b>	
<b>Total capital expenditure - water and sewerage</b>	<b>424.4</b>	<b>(23.0)</b>	<b>401.4</b>	<b>496.5</b>	<b>(21.0)</b>	<b>475.5</b>
Land sales - proceeds from disposals of protected land			0.9			1.0

## Notes to the current cost financial statements continued

### 5 Working capital

	2014 £m	2013 £m
Stocks	10.7	10.0
Trade debtors - measured household	84.3	78.1
Trade debtors - unmeasured household	53.9	61.8
Trade debtors - measured non-household	29.2	19.5
Trade debtors - unmeasured non-household	1.7	0.6
Other trade debtors	35.9	31.5
Measured income accrual	254.7	243.7
Prepayments and other debtors	14.0	18.5
Trade creditors	(67.9)	(100.3)
Deferred income - customer advance receipts	(223.9)	(205.4)
Short-term capital creditors	(58.9)	(68.3)
Accruals and other creditors	(67.3)	(77.2)
<b>Total working capital</b>	<b>66.4</b>	<b>12.5</b>
Total revenue outstanding <sup>1</sup> :		
- household	312.0	295.5
- non-household	47.4	42.5

<sup>1</sup> Excluding bad debt provision and bad debt write offs.

### 6 Analysis of net debt, gearing and interest costs

at 31 March 2014

	Fixed rate £m	Floating rate £m	Index- linked £m	Total £m
Borrowings	(2,286.7)	(555.7)	(3,343.3)	(6,185.7)
<b>Total borrowings</b>	<b>(2,286.7)</b>	<b>(555.7)</b>	<b>(3,343.3)</b>	<b>(6,185.7)</b>
Cash				616.8
Short-term deposits				67.9
<b>Net debt</b>				<b>(5,501.0)</b>
Regulatory capital value				6,954.4
Gearing				79.1%
Full year equivalent nominal interest cost <sup>1</sup>	(130.3)	(10.7)	(172.7)	(313.7)
Full year equivalent cash interest payment	(130.3)	(10.7)	(70.0)	(211.0)
<b>Indicative interest rates</b>				
Indicative weighted average nominal interest rate	5.7%	1.9%	4.6%	4.8%
Indicative weighted average cash interest rate	5.7%	1.9%	2.1%	3.4%
Weighted average years to maturity	10.2	3.8	23.2	17.0

<sup>1</sup> Based on long-term average RPI of 2.5%.

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 <sup>1</sup>	(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

<sup>1</sup> Based on long-term average RPI of 2.5%.

## 7 Current cost profit and loss account

	2014 £m	2013 £m
At beginning of the year	(425.0)	(194.9)
Transfer from profit and loss account for the year	(180.9)	(195.1)
	(605.9)	(390.0)
Actuarial gain/(loss) recognised on pension schemes	5.9	(45.8)
Current tax relating to the actuarial loss on the pension schemes	-	5.2
Movement on deferred tax relating to the actuarial (gain)/loss on the pension schemes	(1.3)	5.8
Impact of change in tax rate on deferred tax on pension schemes	0.2	(0.2)
<b>At 31 March</b>	<b>(601.1)</b>	<b>(425.0)</b>

## 8 Current cost reserve

	2014 £m	2013 £m
At beginning of the year	27,374.0	26,409.2
RPI adjustments:		
- fixed assets	987.0	1,274.9
- working capital	0.4	1.3
- financing	(10.2)	(14.1)
- grants and third-party contributions	(230.3)	(297.3)
<b>At 31 March</b>	<b>28,120.9</b>	<b>27,374.0</b>

## Supplementary regulatory information

### 1 Regulatory capital value (RCV)

	2014 £m
RCV at 31 March 2013 as published in RD04/10	6,653.0
Indexation	163.2
RCV at 31 March 2013 in March 2014 prices	6,816.2
Capital expenditure (excluding IRE)	448.4
Infrastructure renewals expenditure (IRE)	97.9
Infrastructure renewals charge	(84.4)
Grants and contributions	(47.3)
Depreciation	(270.4)
Outperformance of regulatory assumptions (five years in arrears)	(6.0)
<b>Closing RCV</b>	<b>6,954.4</b>
<b>Average RCV</b>	<b>6,802.4</b>

The table shows the RCV used in setting the price limits for 2013/14. 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.

### 2 Non-financial information

for the year ended 31 March

	2014		2013	
	Water	Sewerage	Water	Sewerage
<b>Number of properties (000s)</b>				
Households billed	1,917.4	2,482.7	1,904.6	2,469.3
Non-households billed	108.9	109.1	110.4	110.3
Households void	70.3	84.2	68.2	82.4
Non-households void	15.0	14.7	14.5	14.6
Properties served by new appointee in supply area as at 1 April 2009	1.5	1.3	0.8	0.7
<b>Per capita consumption (excluding supply pipe leakage) litres per household per day</b>				
Unmeasured household	148.0	n/a	155.2	n/a
Measured household	129.2	n/a	126.6	n/a
<b>Volume (mega litres per day)</b>				
Bulk supply export	37.9	1.9	35.0	1.6
Bulk supply import	2.9	7.3	2.8	7.8
Distribution input	1,101.0	n/a	1,082.8	n/a

# Independent auditors' report

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## **Independent auditors' report to the Water Services Regulation Authority (the Authority, referred to as the 'WSRA') and the Directors of Anglian Water Services Limited**

### Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts, defined below:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 195–196 and 205–206 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2014 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

We have audited the Regulatory Accounts of Anglian Water Services Limited ('the Company') for the year ended 31 March 2014 on pages 190–215 (the 'Regulatory Accounts') which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the statutory accounts 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.

### Basis of preparation

In forming our opinion on the Regulatory Accounts, which is not modified, 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 190–192 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 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 193.

### 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 Annual Report and Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

## Independent auditors' report continued

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 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.

### Respective responsibilities of the WSRA, the Directors and Auditors

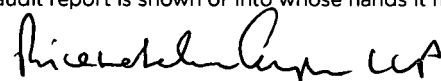
As explained more fully in the Statement of Directors' Responsibilities set out on page 189, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' above, 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.

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.

### 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 2014 on which we reported on 30 May 2014, 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  
30 May 2014

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.



## Glossary of regulatory terms

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**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 sewerage assets. The plan runs for a five-year period. AMP5 covers April 2010 to March 2015.

**Associate company** - Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

**Capital Incentive Scheme (CIS)** - Mechanism introduced by Ofwat to encourage companies to submit challenging and accurate estimation of their capital investment requirements at price reviews.

**Final Determination (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  $RPI + \text{or} - 'K' + 'U'$ . RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers, and 'U' is the amount of 'K' not taken up by a company in previous years.

**Licence** - The Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

**Modern Equivalent Asset (MEA)** - The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up-to-date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

**Non-appointed business** - The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

**Ofwat** - The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

**Periodic Review** - The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the 'K' factor - see above).

## Glossary of regulatory terms continued

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**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.

**Anglian Water Services**

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