

**ANGLIAN WATER SERVICES LIMITED**  
ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2015

(Registered number 02366656)

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COMPANIES HOUSE

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The Queen's Awards for Enterprise: Sustainable Development 2015. This Award was made to Anglian Water Services Limited in April 2015 for embedding sustainability throughout its operations.

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## STATUTORY ACCOUNTS REGULATORY ACCOUNTS

WE AIM TO BE THE LEADING CUSTOMER SERVICE BUSINESS IN THE UK. WE BASE OUR APPROACH ON CUSTOMERS' EXPECTATIONS THAT WE WILL PROVIDE THE VITAL SERVICES THAT HELP THE ECONOMY, ENVIRONMENT AND COMMUNITIES TO THRIVE.

Anglian Water is the largest water and wastewater company in England and Wales by geographic area. We employ 4,332 people and supply water and water recycling services to more than six million domestic and business customers in the east of England and Hartlepool.

#### SOME ACHIEVEMENTS OVER THE LAST FIVE YEARS

**£2.1bn**

INVESTMENT PROGRAMME

**192 ml/d**

LEAKAGE AT HISTORICALLY LOW LEVELS

**↓54%**

MORE THAN HALVED EMBODIED CARBON IN NEW ASSETS WE BUILT IN 2015 FROM A 2010 BASELINE

#### LOOKING FORWARD TO THE NEXT FIVE YEARS

**£5bn**

COMBINED OPERATIONAL AND CAPITAL INVESTMENT OVER THE NEXT FIVE YEARS

**172 ml/d**

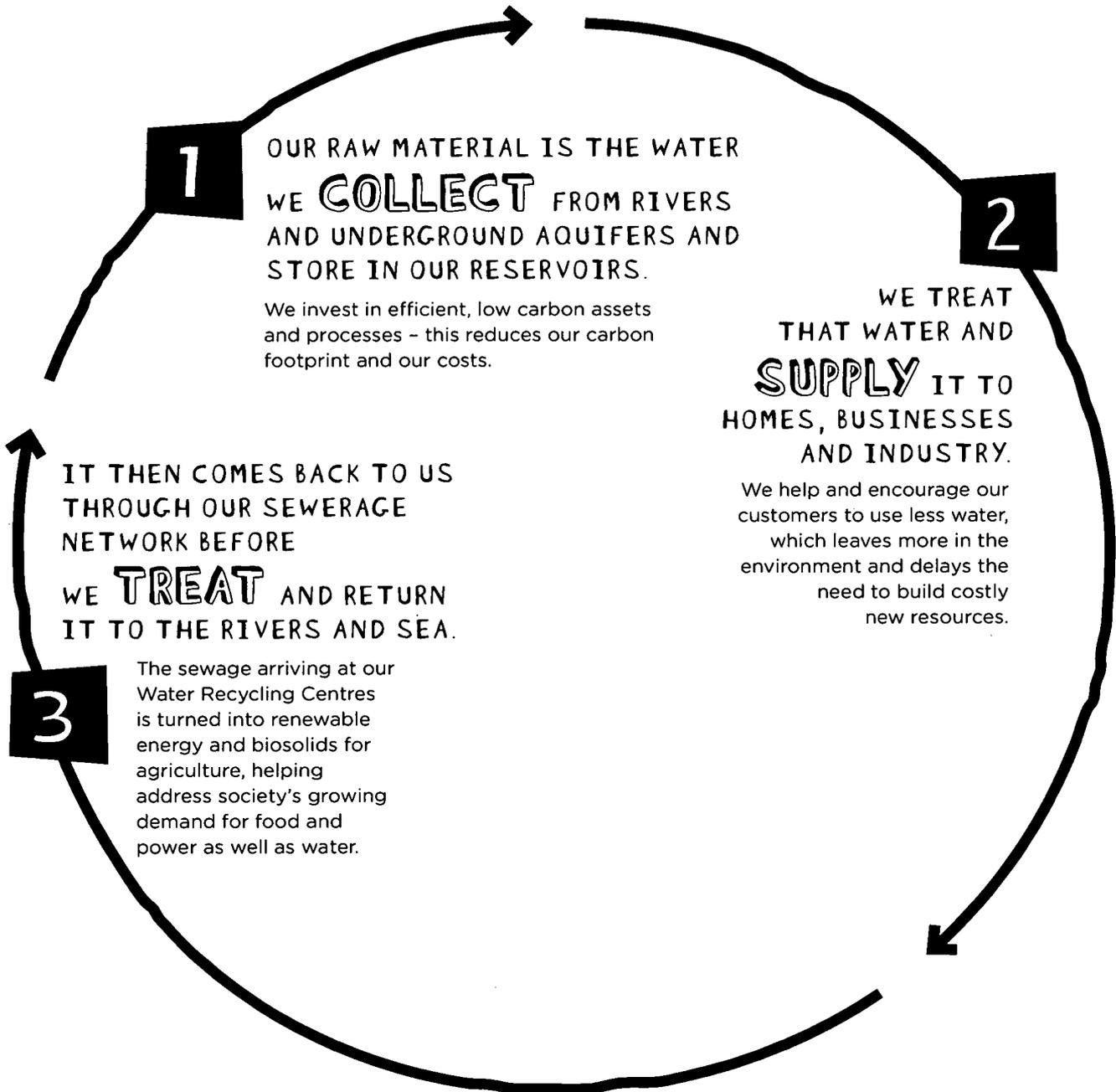
OUR BUSINESS PLAN SETS OUT A FURTHER 20 ML/D REDUCTION IN LEAKAGE BY 2020

**↓60%**

THE REDUCTION WE WANT TO ACHIEVE IN EMBODIED CARBON BY 2020 FROM A 2010 BASELINE

# WHAT WE DO

At its most basic, our business is founded on water and on the water cycle, of which our operation is part.



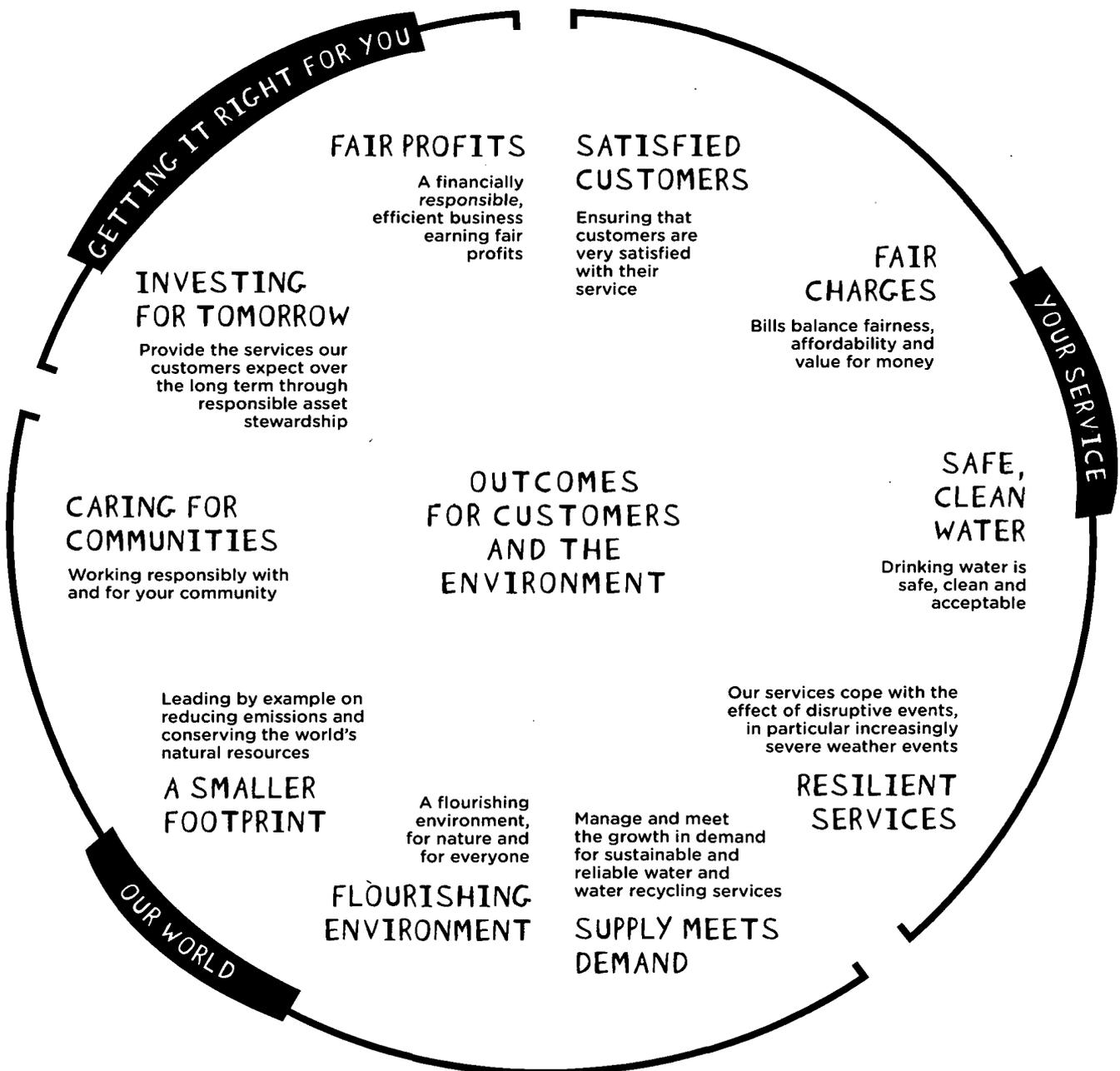
In this way and starting with the most basic and vital of natural resources, our business underpins the health and wellbeing of our customers, supports

growth and prosperity in our region and helps future-proof it against the challenges of climate change and a growing population.

**AND WHAT WE WANT TO ACHIEVE:**  
**OUR 10 OUTCOMES**

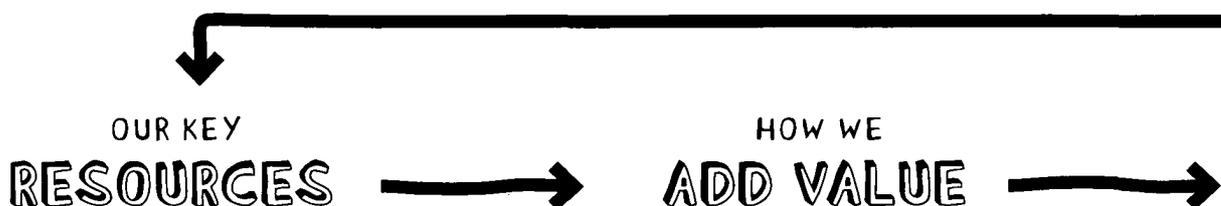
These are the 10 outcomes we want to achieve for our customers and the environment.

→ P19 Performance review



# HOW WE ADD VALUE

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



**OUR PEOPLE**  
Our employees, suppliers and their 'know-how'

**FINANCIAL**  
Capital, revenue and profits invested in our business

**RAW WATER**  
Taken from rivers and aquifers for treatment and supply

**USED WATER**  
Collected, treated and returned to the water cycle

**OUR LAND**  
Needed to collect, treat and return water to the environment, but also rich in wildlife and recreational opportunities

**HOW WE ADD VALUE**

**OUR LOVE EVERY DROP CULTURE**  
Embedding sustainability at the core of our business

**COLLABORATIONS**  
With suppliers, academics, the public and private sectors to deliver transformational change

**INNOVATION AND THOUGHT LEADERSHIP**  
From low carbon technology to behavioural change

**STRATEGIC FUTURE PLANNING**  
Scenario planning, climate and growth projections, customer insight

**BUILDING AND MANAGING ASSETS**  
That are efficient, reliable and resilient

## EXTERNAL PRESSURES

Our business model is designed to take into account external pressures and the material issues that our stakeholders are most concerned about. These are derived from consultation with customers through the engagement forum.

<b>GROWTH</b>	<b>26%</b>	More properties supplied since 1989
<b>CLIMATE CHANGE</b>	<b>14%</b>	Potential reduction in water available to us by 2040

OUR  
**CULTURE**

→ P12 More about our culture

Our approach is that in any business situation we can

**INNOVATE** and  
**COLLABORATE** to  
**TRANSFORM** the end result.

WHAT WE  
**CREATE** →

**ENERGY**

From combined heat and power generators and from wind turbines

**DRINKING WATER**

Safe, clean water - at your tap, when you need it

**WATER FOR INDUSTRY**

Everything needs water, from food processing to heavy manufacturing

**SKILLS, JOBS AND GROWTH**

We invest in our employees, work with schools and enable growth in our region

**RECYCLED WATER FOR THE ENVIRONMENT**

Highly treated used water is put back into the environment

**BIOSOLIDS**

We create a quality soil improver that supports agricultural production

**OUR 10 OUTCOMES**

Our business model is structured to achieve 10 added value outcomes for our customers and the environment.

→ P19 Performance review

**OUR CONTRIBUTION TO SOCIETY**

**FLOURISHING ENVIRONMENT**

**99.9%**

SSSIs in favourable/recovering condition

**CARING FOR COMMUNITIES**

**240,000+**

People seen by our education programme in six years

**INVESTING FOR TOMORROW**

**20**

Water sites being protected from flooding

**FAIR CHARGES**

**78%**

Paying by a meter

# HOW WE UNDERSTAND WHAT MATTERS

Anglian Water has established a Customer Engagement Forum to ensure we continue to focus most on the issues that matter to our customers.

## OUR KEY STAKEHOLDERS

CUSTOMERS    COMMUNITIES    INVESTORS    SUPPLY CHAIN    EMPLOYEES    REGULATORS

### OUR CUSTOMER ENGAGEMENT FORUM

**Our forum consists of:**

- Independent Chair
- Consumer Council for Water
- Environment Agency
- Natural England
- Confederation of British Industry
- Citizens Advice
- Local government representative
- Chair of panel and working group(s).

**Our engagement consists of:**

The independent Customer Engagement Forum (CEF) was established to represent the interests of customers, communities, the economy and the environment in the development of the 2015-2020 Business Plan. It has advised and challenged us at every stage and endorsed the final

submission to Ofwat. The Forum will continue to meet, consult and act as a body that will review and assess the delivery of the plan over the next five years.

**Key findings<sup>1</sup>**

The Company has appropriately used the results of customer research to inform the construction of its longer-term strategy and has responded well to the demands and challenges made by the CEF in shaping its strategy, including the balancing of long-term customer priorities such as:

- Ensuring that there are no knock-on consequences from the investment, price and financing proposals in the current plans that would cause bills to rise sharply in 2021. However, there is provision in the plan to

ensure that essential services and resources are adequately maintained for future customers

- Ensuring that there would be no constraints on housing, business or other economic growth from limitations in company capacity and capability in differing growth scenarios
- Ensuring that the long-term environmental needs of the region are met
- Continuing to support customers and communities, including the most vulnerable
- Responding to the desire for low bills for household customers
- Addressing the specific needs of Hartlepool Water customers.

## OUR MATERIAL ISSUES

These are the key issues that affect our business and its ability to create value, be it financial, social or environmental. They are what matters most to our owners, customers and regulators.

**PROVIDING SAFE, CLEAN AND RELIABLE WATER**

**BILLS, AFFORDABILITY AND PROFITS**

**LEAKAGE**

**RESILIENCE AND FUTURE CHALLENGES**

**PROTECTING THE ENVIRONMENT**

<sup>1</sup> Report by the Chair and members on the PR14 business planning processes and final business plan submission of Anglian Water Services Ltd (December 2013).

# WHAT AFFECTS US

There are many factors, in the water industry and the wider world, that affect how we shape our business for the future.

## WHAT REGULATION MEANS FOR US

**Ofwat** is our economic regulator. It determines the price we set for our customer bills and we have worked closely with Ofwat in producing our Business Plan for 2015-2020. In December, its Final Determination agreed with almost everything proposed, allowing us to deliver on the priorities agreed

with our customers.

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. It has been closely involved in the development of our Water

Resource Management Plan and in the thought leadership work on 21st century water supply through the Cambridge Programme for Sustainability Leadership.

The **Drinking Water Inspectorate** ensures the quality of water we supply to our customers.

## WHAT COMPETITION IN THE WATER INDUSTRY MEANS FOR US

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. 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 industry systems and codes required for a fully functioning, competitive market. Anglian Water is represented on a number of working groups, including the High Level Group which is providing the direction for the Programme. We have established

our own Market Reform Programme, and this year saw our retail arm, Anglian Water Business (AWB), move into their own office with separate IT and telephony systems. Anglian Water has also formed a new business unit, Wholesale Services, which will be the single point of contact for AWB and other retailers operating in our region.

## MANAGING POPULATION GROWTH AND INCREASED DEMAND

We supply to approximately two million households, an increase of 26 per cent since the water industry was privatised in 1989. Despite this, the total amount of water we supply each day is now slightly less. This is due in large part to long-term reductions

in leakage, to the increasing proportion of customers on a water meter and our installation of water efficiency devices in people's homes. Our region's population may increase by as much as one million by 2040, increasing demand by 13 per cent.

Reducing leakage and using water more efficiently are things that customers expect us to do to maintain the future balance between supply and demand, and we will continue to focus on these areas over the next five years.

➔ **P32** How we measure up  
- supply meets demand

## MANAGING THE EFFECTS OF CLIMATE CHANGE

The Anglian region is the driest in the UK, with average annual rainfall approximately 71 per cent of the long-term average for England. Climate change threatens to reduce that further, while rising sea levels could threaten coastal

sites. In response, we continue to invest in new water resources and to improve the efficiency and connectivity of our network. We are also investing in flood defences at vulnerable sites and working to reduce our own impact on climate

change through reducing our carbon footprint and increasing the amount of renewable energy generated on our sites.

➔ **P26** How we measure up  
- resilient services

# CHAIRMAN'S WELCOME

“ It is an honour to take up the role of Chairman in a company that occupies a leadership position in its industry, and which is setting national standards on many issues.”

Stephen Billingham

→ P69  
Governance

As the Company begins to implement its customer-backed, five-year plan for the next Asset Management Plan period, we can look back with satisfaction at what has been achieved in the past five years: the lowest ever level of leakage achieved by a water company in the UK; a leading customer service position; the largest percentage drop in bills of any water and sewerage company; and the receipt of a Queen's Award for Enterprise, which was received for Sustainable Development.

It is an honour to take up the role of Chairman in a company that occupies a leadership position in its industry, and which is setting national standards on many issues.

“In its review of our Business Plan, Ofwat highlighted the exceptional evidence of effective customer engagement and of the Plan's long-term affordability.”

Retaining our position presents a significant challenge – a challenge that the Board and the management team are pleased to address. I have confidence that the success already achieved by the Company, as detailed in this Annual Report, is indicative of Anglian Water's capability.

The rigour with which the Company has developed its plan for 2015–2020 has been praised by our regulator Ofwat. In its review of our Business Plan, Ofwat highlighted the exceptional evidence of effective customer engagement and of the Plan's long-term affordability.

Anglian Water has adopted a leadership position on a range of issues, actively influencing the development of the non-household market, contributing to debates on the future management of vital resources and developing forward-thinking relationships with a wide range of stakeholders, businesses and industries.

I am very grateful to Sir Adrian Montague and Robert Napier, my predecessors, for helping shape a company that places customers at the heart of its operations, while meeting the challenging demands of managing the most vital resource on the planet. The Board and I will maintain the high standards that they have championed, working with our management team to fulfil the potential that the success of the past five years promises.

I look forward to working with the whole Anglian Water team to deliver outstanding results for all our stakeholders.

**Stephen Billingham**, Chairman

# CHIEF EXECUTIVE'S STATEMENT

“ In every part of our operation and in all our planning, meeting the expectations of customers is our top priority.”

Peter Simpson

→ P12  
Our strategy

£4  
SAVED ON  
THE AVERAGE  
ANNUAL  
HOUSEHOLD  
BILL IN  
2014/15

The past year has seen some of the biggest changes in the water industry since privatisation. The change to outcomes-based regulation, preparations for the introduction of competition in the non-domestic market and the move to totex are three prominent examples. We have helped to shape and lead these changes within our industry, with regulators and with government, and we now look forward to exploiting the opportunities they bring for the benefit of customers.

Two further, significant developments this year have been the conclusion of the PR14 price review and preparations for the transition to a new regulatory period, AMP6. So it is therefore appropriate for me to reflect on the levels of performance we have achieved in a number of areas, as well as to look ahead to future challenges and opportunities.

In every part of our operation and in all our planning, meeting the expectations of customers is our top priority. Our customer service is recognised as industry leading, providing evidence that our approach to business planning and the initiatives we have developed and implemented are working.

£439m  
INVESTED IN  
ESSENTIAL  
SERVICES

This year, the final year of AMP5, we invested £439 million in essential services, maintaining and developing our networks, and running our business. This is in the context of our £2.1 billion investment programme since 2010. During AMP5 we delivered 100 per cent of our regulatory obligations and have become an increasingly efficient business.

The significant efficiencies we have achieved during AMP5 mean we have been able to reinvest £235 million in the business, as well as deliver

significantly lower average household bills in 2015/16. Customers on average will see their bills drop by around seven per cent in real terms. This is the largest percentage reduction of any of the water and sewerage companies, and we have promised to keep bills flat, excluding inflation, to 2020. Even before the start of the new AMP we took the decision not to increase bills in 2014/15 by the full amount agreed with our regulator Ofwat. This saved around £4 on the average annual household bill.

“The significant efficiencies we have achieved during AMP5 mean we have been able to reinvest £235 million in the business...”

We have also been able to offset cost pressures associated with the adoption of private sewers, drought, flooding, and driving down leakage without any incremental impact on customer bills.

We continue to recognise the pressure that many household budgets are under, which is why throughout the year we have re-affirmed the commitments we made in our contract with customers. This pledges to invest in essential services; to provide extra help for vulnerable customers; to help reduce water usage and costs with water meters; and to keep bills as low as possible.

More than 50,000 customers engaged in the development of our Business Plan for AMP6 – for the five years to 2020. This was our biggest ever public consultation and included extensive discussions with elected representatives, local authorities, customer groups, community organisations and business leaders.

## CHIEF EXECUTIVE'S STATEMENT

**183,000**  
ENHANCED  
WATER METERS  
INSTALLED  
IN AMP5

The Plan, which we agreed with Ofwat in January 2015, contains 10 specific outcomes our customers expect us to achieve, including for the environment, the economy, the communities we serve and the service we offer.

Our progress towards these outcomes will now be assessed against a series of Outcome Delivery Incentives (ODIs). We will be incentivised and rewarded for good performance, and penalised for any poor performance. We relish the challenge these ODIs present.

**“We will be incentivised and rewarded for good performance, and penalised for any poor performance.”**

To meet these future challenges and to help drive operational performance and even greater efficiency, we have taken our Love Every Drop strategy to the next level.

We set ourselves and our suppliers tough and ambitious goals to drive even greater step changes in behaviour and standards of service, all framed in the outcomes agreed with our customers. The defining principles of innovation, collaboration and transformation continue to be embedded throughout the business.

Consequently, we have exceeded our Love Every Drop goals to reduce carbon, both in our operations (operational carbon) and in the assets we build (capital carbon), with capital carbon reduced by 54 per cent from a 2010 baseline.

This is a huge achievement and was only made possible by driving innovation in design, the use of materials, construction methods and ways of working.

**“...we have exceeded our Love Every Drop goals to reduce carbon... with capital carbon reduced by 54 per cent from a 2010 baseline.”**

Our ambition for Love Every Drop is to ‘put water at the heart of a whole new way of living’. Our customers have been the first to recognise the potential and to drive changes in behaviour, which have seen greater levels of water efficiency, reductions in pollution incidents and reductions in operational costs – enabling us to deliver lower bills.

Increasingly, our customers value water in this driest part of the UK and for the role water plays in supporting a growing economy, a flourishing environment and vibrant communities.

We end AMP5 with leakage at 192 MI/d, well below the regulatory target of 211 MI/d. This success has been made possible through investment, hard work and innovative pressure management schemes to reduce bursts on our network.

Demand management has also played a big role. We take pride in having beaten our targets for the AMP to install 183,000 enhanced water meters and put water-saving devices in more than 87,500 homes.

At the same time, our Keep it Clear campaign, which targets the problems caused by misuse of the sewer network, has helped us reduce blockages by almost a third since 2010. In areas targeted by the campaign, the average reduction is 52 per cent.

**“...we were awarded the Queen’s Award for Enterprise... in recognition of the way we have set national standards for sustainability...”**

We maintained the excellent quality of the water we supply, despite the challenge posed by stricter standards on lead in drinking water. We exceeded our AMP5 target for the replacement of lead pipes serving older properties. This was part of an industry-leading programme that also saw us work with the NHS and others to raise awareness of the potential risks from lead among vulnerable customers.

This collaborative approach also extends to the development of our scientific staff, where we continued to work closely with the Institute of Water and the Science Council. For the third year running we also sent scientists to the Drinking Water Inspectorate on six-month secondments.

These and other successes were recognised in April when we were awarded the Queen’s Award for Enterprise. This was awarded for sustainable development and in recognition of the way we have set national standards for sustainability, and embedded sustainability throughout our operations.

**87,500**  
HOMES FITTED  
WITH WATER-  
SAVING  
DEVICES

## 22

PEOPLE ON  
GRADUATE  
DEVELOPMENT  
SCHEME

In a further significant development for the business, this year we created four new Alliances that are unique to our industry to deliver our capital programme for AMP6. We have appointed all the business partners that will deliver our capital and maintenance programmes for a period of up to 15 years. This will help us deliver the outcomes we agreed with our customers.

Our preparations are well ahead for the introduction in 2017 of competition for non-domestic customers. This year, we began the process of separating from our retail arm, Anglian Water Business. A new business unit, Wholesale Services, will now be the single, independent and impartial point of contact with Anglian Water Services for AWB and other retailers operating in our region. Already, we are winning new business around the country and remain confident that our existing commercial expertise, particularly in Scotland, will help to underpin our credibility in the new marketplace. We are confident of success.

“Over the course of AMP5 we have halved our accident frequency rate, almost halved the number of days lost to sickness...”

Health and safety remains a cornerstone of our operation. Over the course of AMP5 we have halved our accident frequency rate, almost halved the number of days lost to sickness and seen the number of potentially serious accidents tumble from 66 to just four. As a result, this year's figures are our best ever.

## 109

APPRENTICES  
ACROSS OUR  
WATER AND  
WATER  
RECYCLING  
OPERATIONS

We remain committed to our goals of becoming an employer of choice and making a positive difference to the communities we serve. That is why we signed the Armed Forces Covenant this year, to make a formal commitment to help ex-service personnel transition successfully to civilian life. There are currently 22 people on our two-year graduate development scheme and we employ 109 apprentices across our water and water recycling operations, with a further 16 due to join us in the coming year.

The excellent results we have achieved this year, the work we have done to shape and adapt to operating in a new AMP within a new industry structure, and the confidence we have in our long-term future, is due to the support and hard work of employees throughout our business and those of our business partners. I thank them all for their dedicated help and support.

I am very proud to be leading a business that has achieved so much, and that is fit and ready to meet the challenges and opportunities ahead. I look forward to the future with confidence and enthusiasm.

**Peter Simpson**, Chief Executive

## TOGETHER WE HAVE A PLAN!

## OUR PROMISE ON THE COST OF LIVING

We will keep increases in average water bills well below inflation for the next five years.

## EXTRA HELP FOR THE MORE VULNERABLE

We'll increase to £1 million each year the help available for customers who struggle to pay. And we'll launch a special tariff for customers in need of support.

## £5 BILLION TO SPEND ON YOUR PRIORITIES

Running the business, looking after essential equipment, protecting communities from drought, flooding, and a changing climate. We'll do this while helping the economy recover, and the region grow.

## £60 MILLION WAR ON LEAKS

We hate them as much as you do. We have fewer leaks than ever before, but we can do more. And we will, because we know it matters to our customers.

## WATER METERS: YOU'RE IN CONTROL

We'll connect 95% of homes to a meter by 2020, putting customers in control of how much they use, and how much they pay.

## SECURING THE FUTURE TOGETHER

We'll spend almost £100 million to protect against things like fire, flood and drought. We don't want anything to get in the way of a safe, clean, reliable supply of water.

## OUR FABULOUS ENVIRONMENT

We've spent £2.2 billion in the last 20 years to transform the quality of water in our environment. We'll continue to protect the countryside - it's everyone's big back garden.

Our contract with customers appears in the customer brochure that summarises our Business Plan for 2015-2020

# OUR STRATEGY

## A strategy for today and tomorrow

In 2010, at the beginning of the AMP5 period (2010-15), we saw the need for a new kind of strategy to reshape our business for a fast-changing world. It needed to have a global perspective, and to place communities, the environment and the economy at the heart of our thinking and planning.

We called this new strategy Love Every Drop.

Out went traditional, introverted and incremental ways of managing our business. In came a set of bold and far-reaching goals.

Love Every Drop embraces activities and campaigns that involve everyone, including customers, stakeholders, community leaders and young people. In the last five years it has fundamentally changed how we operate.

It has improved our reputation and enabled us to set even higher standards for our own performance. At the same time, it's helped our customers to better recognise the true value of water and how it supports a growing economy, a flourishing environment and vibrant communities.

## A plan for customers, economy and environment

Our Business Plan for AMP6 was written on the back of our largest ever customer consultation. It is based around 10 outcomes that address the issues that matter most to our customers, and that deliver for them, the region and the environment.

As a result, our plan had the highest level of customer acceptability of any in the industry. This was recognised by our regulator, with Ofwat calling our customer and stakeholder engagement "extremely good".

The Love Every Drop goals we have set will guide us in delivering these outcomes, while our culture of Innovation, Collaboration and Transformation provides the solid foundation on which we will build.

The fundamentals of our business have not changed; the provision of safe, clean drinking water, the protection of our environment and world-class customer service remain paramount.

We must continue to deliver these fundamentals safely, avoiding harm to ourselves, others and the environment.

But we will do so much more.

The world around us is changing, and we must too. Our plan will drive the business forward, keeping a firm grip on the leading position we have worked so hard to achieve in the last decade.

OUTCOMES

GOALS

OUR CULTURE

LOVE EVERY DROP

## GOALS

These are the 12, far-reaching and audacious goals we have set internally. They focus our strategy and our business. We hold ourselves accountable against them. Our goals underpin the Love Every Drop strategy, which aims to put water at the heart of a whole new way of living.

## OUR CULTURE

### Innovation, Collaboration, Transformation

These are the bedrock of our business. They are the behaviours we and our partners need to exhibit - the ways we need to work - to achieve our goals. They will help us become a better business, driving improved performance in everything we do.

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

## OUTCOMES

These are the 10 outcomes we have developed with customers, our Board and our Customer Engagement Forum. They support customers, the environment, local communities and the economy. The outcomes are, in essence, the future our customers have told us we need to work towards.

### Measuring our performance

Our Outcome Delivery Incentives (ODIs) will be the measure of how well we are performing against the outcomes we have promised. We have the opportunity to earn a reward, or pay a penalty, depending on how we perform.

→ P19 Performance review

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

Frontier performer in the UK

Exceed a 7% reduction in real terms in gross operational carbon by 2020 from a 2015 baseline

No accidents

No incidents

No pollutions

Employer of choice

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

Pioneer responsible water stewardship

100% of our customers very satisfied with our service

Zero waste - get it right first time, every time

Make a positive difference to the communities we serve

## INNOVATION

Setting tough goals to encourage step changes, being open to new ideas and innovative thinking.

## COLLABORATION

Working with others, inspiring them to take positive steps towards achieving our vision of a sustainable future, creating stronger cross-company working.

## TRANSFORMATION

Transforming the way we work and focusing on outcomes, to remain a successful business.

# HOW WE ARE STRUCTURED

## 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 Chief Executive Officer; the Managing Director, Finance and Non-Regulated Business; and a Non-Executive Chairman.

➔ [www.anglianwater.co.uk/about-us/who-we-are/](http://www.anglianwater.co.uk/about-us/who-we-are/)  
More about our corporate structure

## Our corporate structure

AWG is owned by a consortium of investors, as shown below. The complete holding company structure is presented in the diagram on the next page, 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.

**Colonial First State Global Asset Management** is the consolidated asset management division of the Commonwealth Bank of Australia group.

% Ownership



Origin:  
Australia

**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.

% Ownership



Origin:  
Canada

## OWNERSHIP

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

% Ownership



Origin:  
Australia

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

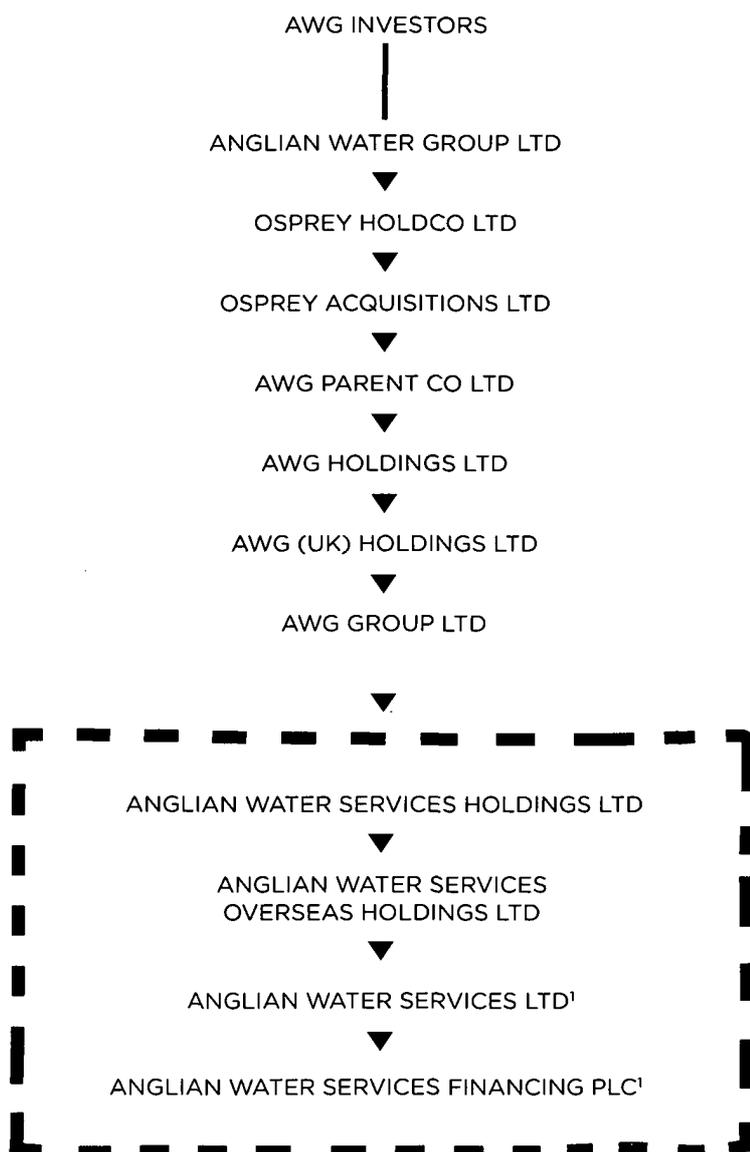
% Ownership



Origin:  
UK

Anglian Water Services  
Financing Group (AWSFG)

▼ Direct subsidiary



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 subsequent changes to UK legislation 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. The company is no longer needed in the group structure, but the administrative cost of removing it would be significant.

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.

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

# WHO LEADS US

## ANGLIAN WATER SERVICES BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS (l-r)

**Chris Newsome**

Director of Asset Management  
Appointed in September 2004.

**Jean Spencer**

Director of Regulation  
Appointed in May 2004.

**Peter Simpson**

Chief Executive Officer AWG  
Appointed to the Board of Anglian Water Services Limited in November 2004.  
Appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013.

**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 business.

### INDEPENDENT NON-EXECUTIVE DIRECTORS (l-r)

**John Hirst, CBE**

Appointed to the Board and as Chairman of the Audit Committee in April 2015.

**A** **R**

**Polly Courtice, LVO**

Appointed in April 2015.

**N**

**John Watkinson**

Appointed in May 2005.

**Stephen Billingham**

Chairman of the Board  
Appointed to the Board in November 2014, and became Chairman of AWS and AWG on 1 April 2015. He became Chairman of the Nomination Committee on the same date.

**A** **N** **R**

**Christopher Garnett, OBE**

Senior Independent Non-Executive Director  
Appointed to the Board in December 2006, and became Senior Independent Non-Executive Director on 21 January 2015.

**A** **N** **R**

**Paul Whittaker**

Appointed to the Board in October 2013 and became Chairman of the Remuneration Committee on 21 January 2015.

**N** **R**

**Steve Good**

Appointed in April 2015.

**A** **N** **R**

**Robert Napier, CBE**

Appointed in February 2002.

**KEY**

**A** Audit Committee

**N** Nomination Committee

**R** Remuneration Committee

## 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** Chief Executive Officer

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

**Jean Spencer** Director of Regulation

**Chris Newsome** Director of Asset Management

**Martyn Oakley** Director of Customer Services  
and Information Services

**Paul Valleley** Director of Water Services

**Paul Gibbs** Director of Water Recycling Services

**Richard Boucher** Business Change and  
Strategy Director

**Claire Russell** Legal Director/Company Secretary

**Mark Pendlington** Group Director of  
Corporate Affairs

**Kate Kelly** Group HR and Change Director

**Ian Rule** Director of Wholesale Services

## NON-EXECUTIVE DIRECTORS

(l-r)

### **Niall Mills**

Appointed in April 2014.

**N** **R**

### **James Bryce**

Appointed in December 2014.

**N** **R**

### **Andrew Cox**

Appointed in April 2014.

**N** **R**

### **Christian Seymour**

Appointed in April 2014.

**N** **R**

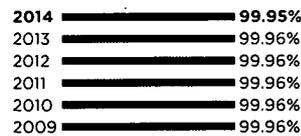
# KEY PERFORMANCE INDICATORS

## DRINKING WATER QUALITY<sup>1</sup>

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

### How this KPI relates to our strategy

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



→ **P24**  
Safe, clean water

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

→ **P27**

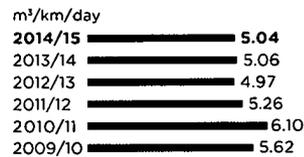
→ **P20**  
Read more about meeting the needs of our customers

## LEAKAGE<sup>2</sup>

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

### How this KPI relates to our strategy

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

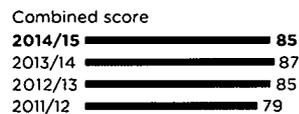


## SERVICE INCENTIVE MECHANISM (SIM)

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.

### How this KPI relates to our strategy

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



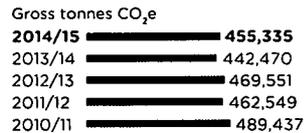
## CARBON FOOTPRINT

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

### How this KPI relates to our strategy

This key measure helps us:

- Manage our environmental impact
- Deliver cost savings.



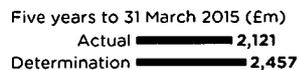
→ **P36**  
Our carbon journey

## CAPITAL EXPENDITURE<sup>3&4</sup>

Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation, and on a UK GAAP basis to be consistent with the Final Determination.

### How this KPI relates to our strategy

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



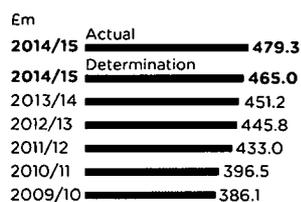
→ **P47**  
Learn more about our capex efficiency savings

## OPERATING EXPENDITURE<sup>5</sup>

Operating costs (excluding depreciation and exceptional operating costs) incurred during the year, and on a UK GAAP basis to be consistent with the Final Determination.

### How this KPI relates to our strategy

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



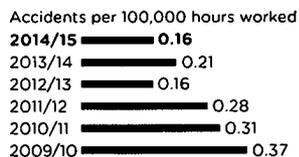
→ **P47**

## ACCIDENT FREQUENCY RATE

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

### How this KPI relates to our strategy

Indicates how safely we work.



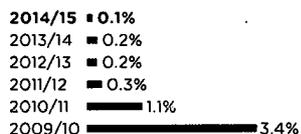
→ **P44**  
Safety in numbers

## ACCIDENT SEVERITY RATE

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

### How this KPI relates to our strategy

Measures severity of accidents/incidents.



→ **P44**

<sup>1</sup> Drinking water results published in 2014 for the calendar year, measured as 'mean zonal compliance' with the regulatory quality standards.

<sup>2</sup> Lost water from leaks in our network and our customers' own pipes. 2014/15 result subject to formal confirmation from Ofwat in autumn 2015.

<sup>3</sup> Final Determination Capex on a gross, Pre-capital Incentive Scheme adjustment basis, in 2014/15 prices. Adjusted to include non-appointed capex.

<sup>4</sup> Actual expenditure excludes £57 million of AMP6 transition spend.

<sup>5</sup> For the appointed and non-appointed businesses. Final Determination adjusted to 2014/15 prices and for non-appointed business and pension deficit payments to ensure consistency.

# PERFORMANCE REVIEW

## HOW WE MEASURE UP

On the following pages we report on how our performance is already delivering against the 10 outcomes we want to achieve for our customers and the environment. As shown here, these are grouped into three broad headings: 'Your Service', 'Our World' and 'Getting It Right For You'. At the end of each section there are two case studies to show how our work is driven by our culture of Innovation, Collaboration and Transformation.

### YOUR SERVICE **P20**

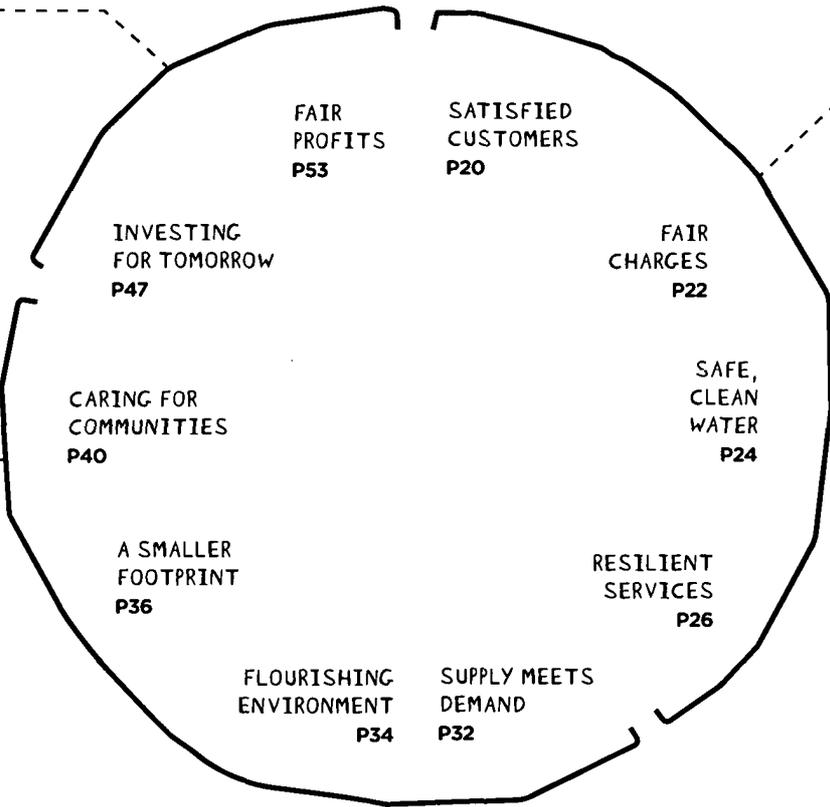
We want our customers to be very satisfied with our service and to see their bills as fair and affordable. Water and sewerage are essential services. We work to ensure their quality, reliability and resilience remain world class.

### GETTING IT RIGHT FOR YOU **P47**

We need to run our business efficiently and maintain assets effectively. We need to keep innovating, to improve efficiency and reduce the costs and risks of running the business. We have to run a financially responsible business earning fair profits. Investment relies on raising finance efficiently and at relatively low costs.

### OUR WORLD **P32**

We have to meet the rising demand for water while safeguarding the environment and the quality of life for the communities we serve. We need to reduce our carbon emissions, our reliance on finite resources and reuse the materials and energy created by our operations.



### RESOURCES USED AND AFFECTED

To create value for all our stakeholders we use the resources available to us and always endeavour to create a positive impact upon them through our business activities. In this review of our performance we have used the icons below to highlight the resources we are dependent upon and how we use those resources to create value in other areas.

Financial    Natural    Human    Intellectual    Manufactured    Social and relationship

## PERFORMANCE REVIEW

### YOUR SERVICE

## SATISFIED CUSTOMERS

Ensuring that customers are very satisfied with their service

**96%**

CUSTOMERS SAYING  
THEY WERE SATISFIED,  
OR BETTER, WITH THE  
SERVICE THEY RECEIVED

### KEY HIGHLIGHTS

INTRODUCTION OF OUR  
CUSTOMER IT SYSTEM TO  
IMPROVE SPEED AND EFFICIENCY  
OF CUSTOMER SERVICE

CREATION OF A NEW SOCIAL  
MEDIA TEAM

#### Measuring customer satisfaction

The way customer satisfaction is measured is changing.

Ofwat compares the customer service offered by water companies using its Service Incentive Mechanism (SIM), surveying customers during four set weeks each year. In the past Anglian Water has scored well, and was rated best in the industry on the survey's qualitative measure in 2013 and 2014.

From the start of 2015/16 Ofwat is making changes to the SIM.

Companies will no longer get prior warning of when the four SIM survey weeks will take place. Ofwat will request information on all customers who contacted the Company during each SIM week and those surveyed will include people who have not yet had their issues resolved.

We have been working closely with Ofwat to develop the new measures. We have taken part in four pilot waves of this new survey to help shape the format and questions that all water customers will be asked.

We also continued with our own, internal SIM survey using the old methodology, to keep track of our performance and of what our customers are telling us.

Collection Technician  
Ian Parker,  
with customer  
Harshad Patel.

This internal survey gave us a score of 85 compared with 87 in 2013/14. It is not possible to compare our performance with other water companies this year, as not all have tracked their performance as we have. Looking back to 2013/14, the scores for water and sewerage companies ranged from 71 to 87 out of 100.

Despite the slight reduction in our score, this still represents more than 89 per cent of customers surveyed saying they were satisfied, or better, with the service they received.

Our own Voice of the Customer team speaks to customers every week to see how satisfied they are with how we resolved their issue. The results have been good, with more than 96 per cent saying they were satisfied, or better, with the service they received.

We are now planning to mirror the changes to SIM and will be asking customers for feedback after their first contact with us instead of waiting until their issue has been resolved. This will let us know where service improvements are still needed.

## 1Customer

This year saw the introduction of our 1Customer IT system. This pulls all our information about a customer, their account, water use, property and area onto one screen. Before this, a contact centre agent might have had to use several different systems to answer a caller's query.

Our contact centre agents were involved in the design, development and testing of the new system to make sure it met their needs and those of the customers they speak to.

As a result, processes that used to take minutes now take seconds with the click of a mouse. Customers have their issues resolved more quickly, many more of them at first contact. Training time for agents has also been reduced.

## Increasing our social media presence

Social media has transformed customer expectations, creating the demand for faster, round-the-clock interaction. People now define how they want us to communicate with them, and social media gives them a more active role in the conversation.

The coming year will see the creation of a new social media team, who will transform the way we interact and communicate, bringing all our social media touchpoints together. This will help us to ensure a consistently great service is delivered across all channels.

We have also launched a new 'In Your Area' section on our website. Live information on interruptions to supply, planned maintenance, investments and events are all on the site and customers can see at a glance what's going on near them. They can also report leaks, sign up for regular updates or share alerts using our social media channels.

## PERFORMANCE REVIEW

### YOUR SERVICE

## FAIR CHARGES

**Bills balance fairness, affordability and value for money**

We know that household budgets remain under pressure. Most customers say bills are already fair, affordable and value for money, but we are focused on doing what we can to improve on this position. We have committed as part of our five-year Business Plan to 2020 to keep bills as low as possible, while at the same time delivering an investment programme to maintain and improve essential water and sewerage services.

This means that for 2015/16, customers on average will see their annual bill drop by around seven per cent in real terms. The average annual bill will reduce to £402 per year, or £1.10 per day. Customers with a water meter will pay even less, with the average bill dropping to £371.

### **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 a series of payment options, providing metering and water efficiency advice to help customers manage their consumption and different tariff options to help customers on low incomes.

### KEY HIGHLIGHTS

REDUCED OUR AVERAGE ANNUAL BILL BY SEVEN PER CENT IN REAL TERMS

LAUNCHED A NEW SOCIAL TARIFF TO HELP CUSTOMERS ON LOW INCOMES

EXCEEDED OUR AMP5 TARGETS FOR INSTALLATION OF WATER METERS AND WATER-SAVING DEVICES

In the last year we consulted with customers on our proposal for a new social tariff. This got strong support in the Anglian region and launched there on 1 April 2015. It did not receive sufficient support from customers in the Hartlepool Water area and will not be introduced there.

We expect the scheme, called LITE (Low Income Tariff for Eligible Households), will help approximately 9,000 customers.

Customers pay an extra £1 a year, creating a fund used to reduce the bills of those eligible for help. Applicants are assessed in partnership with Citizens Advice, who looks at people's water and sewerage charges as a proportion of their disposable income.

We also provide direct tariff support to a further 55,000 customers through the Government's WaterSure scheme and our own AquaCare Plus tariff.

In addition, we run an assistance fund to help customers who have historic debt get back on track. The fund was increased to £1 million from 1 April 2015.

IN 2015/16 OUR CUSTOMERS' AVERAGE ANNUAL BILL WILL REDUCE TO

**£1.10**

PER DAY

## 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. Typically, customers save over £100 a year and use up to 15 per cent less water when they switch to metered charging.

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 16,000 customers chose to have a meter fitted in the last year and we also fitted another 5,500 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 121,000 meters this year to make sure customers continued to get fair and accurate bills.

### CASE STUDY

## SMART METERS IN COLCHESTER

**This year we have been working on a new way to collect weekly readings from smart meters.**

Working with Colchester Borough Council and Siemens, we have installed receivers on 11 of the council's refuse lorries, which then collect data from meters as they drive by on their rounds. The data is sent to the receivers when they come into range and is then forwarded to us.

This more frequent collection of data lets us spot leaks or other problems more quickly. The information is also shared with customers to help them understand and manage their water use.

In AMP6 we will be extending the pilot by fitting another 14,000 smart meters in Colchester and expanding how we use the information provided. We will also begin a new trial in Newmarket with 10,000 meters providing data every 15 minutes.

## Big targets, big achievements

Our aim in AMP5 was to complete nothing less than the largest water efficiency programme ever attempted, with plans to install 183,000 enhanced meters, offer water efficiency audits and install water-saving products for 87,500 customers.

*In the event, both programmes have exceeded their targets.*

## Looking ahead

We already have the highest level of metered customers among the major water and sewerage companies in the UK. Some 88 per cent of Anglian Water customers now have a meter fitted, with 78 per cent getting a metered bill.

Nevertheless, we plan to increase this number even further in AMP6, with plans to install a further 86,000 enhanced meters by 2020. In addition, we forecast another 74,000 customers will choose to have a meter fitted.

## Helping customers to save water and money

In addition to carrying out more than 87,500 home water audits during AMP5, we have also been offering and installing water-saving devices as part of our Bits and Bobs campaign. This helps customers take control of their bills, saving not just water but the energy needed to heat it.

This service is very popular with customers, with 90 per cent of those surveyed saying they were very satisfied with their experience.

We are now introducing a new type of visit, providing a water consumption check, advice and the installation of free water-saving products to customers who ask for a water meter. We aim to carry out around 44,000 of these during AMP6.

Our award-winning gardening club, The Potting Shed, has continued to be very popular with customers and to date we have distributed around 30,000 of our free water-saving garden kits.

# PERFORMANCE REVIEW

## YOUR SERVICE

### SAFE, CLEAN WATER

Drinking water is safe, clean and acceptable

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 improved the measure relating to maintenance of our networks.

The quality of the water travelling through our network to homes and businesses was judged to have declined very slightly, although this was largely due to the tightening of the standard for lead in drinking water. We are also continuing to work hard to help customers maintain that high quality when water enters their own, private pipework.

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

For the third year running we have seconded scientists to the Drinking Water Inspectorate (DWI). Those chosen spend six months as DWI inspectors in a groundbreaking initiative, which brings us knowledge and new thinking to help maintain the highest standards in water quality.

Resources used and affected

Intellectual

Natural

## KEY HIGHLIGHTS

MET AMP5 TARGET FOR LEAD PIPE REPLACEMENT

EMPLOYED A TEAM OF CATCHMENT ADVISORS TO WORK WITH LANDOWNERS AND HELP REDUCE POLLUTION IN RAW WATER

LAUNCHED THE KEEP WATER HEALTHY SMALL BUSINESS CAMPAIGN TO IMPROVE PUBLIC AWARENESS OF THINGS THAT CAN AFFECT DRINKING WATER QUALITY INCLUDING WATER FITTINGS ISSUES

### Our network

We measure the quality of our drinking water, carrying out more than a third of a million tests every year. This year, our overall compliance was 99.95 per cent.

We also maintained our performance at our treatment works, where we are measured by the DWI, with exceptional water quality in our network of water mains.

We are continually investing to maintain and improve water quality. This year saw work completed 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.

### Lead replacement

This year our water quality compliance saw a slight fall from the 99.96 per cent we had achieved for the last five years to 99.95 per cent. This was due in large part to the impact of a stricter EU standard on the levels of lead allowed in drinking water.

In December 2013 this fell by more than half, from 25 µg/l (microgrammes per litre, or parts per billion) down to 10 µg/l, which made reducing the risk of lead failures much harder.

Ahead of this change, we began a programme of lead pipe replacement. During AMP5, we replaced 11,465 lead pipes in high-priority areas, including Peterborough, Northampton, Ipswich, Kettering and Bedford. This exceeded our target of 11,299.

Including other, lower priority areas, we replaced a total of 12,251 lead pipes in AMP5. These towns are typical of many in our region where a high number of homes built before 1970 means lead pipes are still relatively common.

These areas have been the focus of our efforts to replace pipes and alert customers to the risks. We have been working with the NHS to reach pregnant women and children under six, who are most vulnerable to the risks of consuming lead.

## CASE STUDY

### UPPER BODDINGTON AND THROSTON

**This year we had one drinking water quality incident (events classified as 'serious' or 'major' by the DWI).**

People living in the Northamptonshire village of Upper Boddington were asked to boil their water for nine days because of evidence that water quality had deteriorated in the main. This was done as a precaution while we carried out maintenance work.

We worked closely with residents and the parish council to reduce the impact and are now investing in improvements to the network, including a new chlorine dosing point and a new section of main.

We were also issued with a number of recommendations by the DWI about a turbidity failure at Hartlepool Water's service reservoir at Throston.

In September 2014, work to improve the water treatment works at Dalton Piercy disturbed sediment in a water main, which then entered the reservoir.

There was no impact on customers, and the failure was judged less serious than Upper Boddington at category three, which is significant but not serious or major. Nevertheless, the DWI did give us five recommendations related to Hartlepool Water's sampling procedures, the way it investigates such incidents and the way it notifies the DWI about them.

We take any water quality incident extremely seriously, and are working to implement all the DWI's recommendations.

We have also carried out 670 free lead tests for customers in the last year alone. 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, not through expensive, carbon-intensive water treatments. It looks at everything from flood risk and water quality to wildlife and the communities who live and work alongside the water.

Success relies on close working between those who manage and interact with the land, rivers and aquifers we all rely on. That includes landowners, farmers and local communities, as well as water companies and their regulators.

To help drive that partnership working, we have appointed a team of Catchment Advisors for AMP6 who will work from the catchment to the coast. A particular focus will be developing our relationship with the region's farmers and working closely with them to improve the water quality in our rivers, as well as collaborating with coastal businesses and communities to tackle marine pollution.

Anglian Water is especially interested in the impacts of nitrates and pesticides, which can percolate through soil into groundwater or get washed off the land by rainfall into rivers and reservoirs. Another focus is phosphorus, which is found in domestic detergents and household cleaning products as well as being applied to fields as a nutrient for crops.

One pesticide in particular – metaldehyde – had a marked effect on our operations this year. See our case study on page 31 for more details.

### Keep Water Healthy

Our drinking water campaign, Keep Water Healthy, was launched in 2013 to raise awareness of water quality in the home and to help customers avoid plumbing and other problems in the home that may cause water quality issues.

This year the campaign moved on to the next phase, focusing on small businesses such as cafés, dentists and offices. The main areas of focus are:

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

## YOUR SERVICE

### RESILIENT SERVICES

**Our services cope with the effect of disruptive events, in particular increasingly severe weather events**

#### Adapting to a changing climate

Climate change is one of the biggest risks facing our company and our region. It threatens shifting weather patterns that will lead to more flooding and wider extremes of temperature. It could also lead to a reduction in the amount and quality of water in the environment. Our business must adapt to these changes to maintain vital services to our customers.

In 2011 we published our first Adaptation Report, which informed the creation of our Climate Change Adaptation Plan in 2013. This year we have continued to deliver this plan, further embedding adaptation into decision making, carrying out targeted research and extensive engagement on flooding. Our second Adaptation Report is published this year.

Security measures being installed.

## KEY HIGHLIGHTS

LEAKAGE DOWN TO 192 ML/D - THE SECOND LOWEST LEVEL IN OUR HISTORY

STARTED THE ROLLOUT OF OUR NEW TELEMETRY SYSTEM

A 40 PER CENT DROP IN CRIME AT OUR SITES

#### Being prepared

We continue to collaborate with others to make sure we are prepared for the impact of extreme natural and man-made hazards.

Our employees sit on 13 Local Resilience Forums (LRFs) and the Multi Agency Support Group for the East of England, which brings together organisations with a role to play in helping the region to cope in times of emergency.

Over the last year we have trained 324 people in incident roles and carried out 34 exercises to ensure our employees are prepared for any eventuality.

Anglian Water also remains the only water company to be certified to ISO 22301 (Business Continuity Management). This international standard is an extra assurance for customers and key stakeholders that we can keep our business running during, and following, any disruption.

We have now completed our AMP5 programme of capital projects to improve security and ensure compliance with the Water UK Standards for Operational Assets.

In addition we have continued to drive anti-theft measures across the business. We appointed a Theft Reduction Manager in September 2013 and have now put in place a number of new security measures at water and water recycling sites. These include CCTV, motion sensors, signs and barriers. Covert operations have also been used to reduce diesel theft.

All this has resulted in a 40 per cent drop in crime at our sites since the Theft Reduction Manager was appointed.

## Driving down leakage

We are committed to driving down leakage rates, reducing the number of bursts on our water mains and keeping our customers' water on.

Since the drought of 2010-12, we have been working to bring leakage below the target set by our regulators. In 2012/13 we had the lowest level of leakage in our history – 189 MI/d compared to our regulatory target of 211 MI/d.

The following year this rose slightly to 193 MI/d, although this was still our second lowest leakage rate ever. This year the level has fallen to 192 MI/d, despite an increase in bursts over the winter. This is hugely important as we start the new AMP and begin the most ambitious and challenging leakage reduction initiative in the industry.

Reflecting customers' concerns about leakage, our Business Plan sets out a further reduction of 20 MI/d, bringing the level down to 172 MI/d by 2020.

## Prevention is better than cure

We continue to operate a rapid response to leak repairs but hitting our AMP6 target demands an increasingly proactive approach; we need to stop bursts and leaks from happening in the first place.

Our current proactive leakage process lets us spot and respond to 27 per cent of leaks proactively, before customers are even aware of them. Our continuing Optimised Water Networks strategy (OWN) takes that further, actually preventing bursts through better management of pressure in our network.

OWN schemes delivered in AMP5 continue to bring benefits. In areas with pressure management, there has been a 32 per cent reduction in bursts. Water lost to leaks has fallen by 35.9 per cent, which is more than 8.5 MI/d.

Due to this success, £1.6 million of investment planned for AMP6 was brought forward and delivered in 2014/15. Our approach to scheme development and prioritisation has matured and is aligned to business outcomes, including water quality, energy and business resilience. Investment for AMP6 will be £13.7 million.

Alongside this work our new Integrated Leakage and Pressure Management system (ILPM) will be in final stages of rollout this summer.

ILPM brings information about the network together in one place and in real time, making it easier to detect and control leakage. A further rollout planned for October will improve our ability to target work at areas of the network with rising leakage.

## BACK TO SCHOOL

Keep it Clear went back to school this year with help from Mad Science – a company that works to bring the wonder of science alive for young people.

A series of action-packed assemblies helped primary school children understand the problems caused by sewer blockages through hands-on experiments, including flying toilet roll, the Wicked Wipe Challenge and some eye-boggling erupting pipes.

## Gently does it

As part of OWN we have looked at how the everyday operation of our network can inadvertently lead to bursts and leaks. Routine tasks like starting and stopping pumps or opening and closing valves can cause fast, short-lived changes in pressure and flow – known as transients or surges – within the pipes.

Working with the University of Sheffield we have been running a programme to improve awareness of transients and their impacts. A specially built rig provides advanced training in how to limit the size of transients caused as technicians go about their day-to-day work. We are currently talking to other users of the network such as the Fire Brigades about how they could make use of this training.

# PERFORMANCE REVIEW RESILIENT SERVICES

Alternative supplies: 9,000L tanker at work.

## Interruptions to supply

One of the new Outcome Delivery Incentives being introduced in AMP6 calls on us to halve the amount of time customers are off water by 2020.

In addition to reducing bursts through better pressure management, we have been looking at other reasons customers' supplies may be interrupted. These include power failures at our water treatment works, towers and reservoirs, so we are investing in technology to allow remote operation of key boosters and pumps and faster restoration of water supplies.

How quickly we respond to interruptions is critical and we are looking at ways to keep people supplied while repairs are carried out or new pipes laid. These include the use of temporary over land pipes or water tankers.

Detailed analysis of the network will help target investment and boost resilience of pipes and sites, while updated monitoring systems will provide better data. This in turn will allow us to respond faster to any interruptions and collect valuable information to prevent future problems.

The aim of both the Interruptions to supply and the Optimisation programme is to reduce asset failures for the benefit of customers.

## IRIS project

The IRIS programme will replace the telemetry system that monitors and controls all our water and water recycling networks.

This is a hugely complex and sensitive task, which is gradually swapping our telemetry system for one that is more modern and secure.

After five years' work, the first parts of the old system were switched to the new, bespoke platform in November. The transfer has continued in stages, with around 58 per cent now complete.

The work is done in stages to make sure the new system is ready to take on the vast amount of data produced by more than half a million monitoring points and 35,000 telemetry pictures.

We aim to have everything switched over later this year, but the benefits are already being seen, with more effective, risk-based, intelligent alarms and new performance reports.

We can now react much faster to any problems, with more information quickly available. At the same time, we can be much more proactive, pinpoint poorly performing assets and prioritise work more efficiently.

## 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 by working with customers, councils, businesses and others.

### Resources used and affected

	Intellectual	Natural
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There has been a reduction in blockages of 30 per cent, and an average of 52 per cent in those areas where campaigns have been running for more than a year.

Other highlights this year included teaming up with Sainsbury's and Waitrose to give out funnels and fat traps over Christmas and winning Business in the Community's Engaging Customers on Sustainability Award. We also took the campaign into schools in a series of special assemblies.

A short film, *Lottie's Vlog*, takes visitors to our website on a journey of discovery about the issues, from the sink and toilet via pipes and pumping stations to a water recycling centre.

## Anglian Water Business

### Preparing for competition

This year saw Anglian Water and its retail arm Anglian Water Business (AWB) take major steps towards the moment the industry opens up to competition for non-household customers in 2017.

In April, Anglian Water Business moved into its own office with separate IT and telephony systems. These included a market-leading Customer Relationship Management system and a powerful billing system tailored to the needs of business customers.

It will focus on being a leading national retailer, developing innovative ways to help customers to save water and money.

At the same time, Anglian Water has formed a new business unit, Wholesale Services. With the arrival of competition, Anglian Water will be the wholesaler and Wholesale Services will be the single point of contact for AWB and other retailers operating in our region.

### Rewarding water-conscious businesses

Anglian Water Business hosted its inaugural We Love What You Do Business Awards in November.

The awards recognise people, businesses and initiatives that have helped to protect the environment and secure the future of the water-stressed East Anglia region. They are also designed to showcase AWB's skills in helping businesses manage their environmental impact.

### Active Water Management

Our Active Water Management service helps business customers make sure they are only using the water they need to. Using a variety of techniques, AWB can monitor and analyse customers' water use, letting them know if there are ways to save. This year the service has delivered the following savings for customers:

- £300,000 in water costs
- 66,492,000 litres of water – enough water to supply 1,214 people for a year
- 1,928,268kg of carbon – equivalent to taking 406 cars off the road
- 691,496kWh of energy from hot water use – enough energy to power 66 homes for a year.

Resources  
used and  
affected

Natural

Intellectual

Financial

Bookmakers, Betfred, transferred all their Scottish outlets to Anglian Water Business in 2013.

Impressed by the 30 per cent water savings made in Scotland since, they have now signed a two-year contract for AWB to provide Active Water Management to 1,200 other sites across the UK.

### Save Money, Cut Carbon

Anglian Water Business recently launched a partnership with water and energy efficiency specialist, SaveMoneyCutCarbon, designed to help customers save millions of pounds in water and energy bills.

The partnership will highlight simple, cost-effective measures that can make a lasting impact on utility bills, offering business customers advice and discounts on energy and water-saving products through an online portal.

“Anglian Water Business is delivering real value to its customers and demonstrating that it is taking a long-term, leadership position in the marketplace by setting out to champion and support not just water but also energy efficiency and savings.”

Mark Sait, CEO, SaveMoneyCutCarbon

### Carbon Trust Standard for Water

We remain the only water company working in partnership with the Carbon Trust to promote and offer assessment for the Carbon Trust Standard for Water to our business and public sector customers.

The Standard recognises organisations that measure, manage and reduce water use year on year. Our customers can make savings through our services and we can also help them gain independent recognition for their achievements.

In autumn 2014, we helped MSD Animal Health UK to achieve the Standard. The veterinary medicine manufacturer needs highly purified water to meet the stringent standards around health products. This means energy-intensive treatment on site, so reducing water use has a positive effect on energy and carbon.

# KEEPING CAISTOR SUPPLIED

THIS YEAR WE SHOWED OUR ABILITY TO KEEP PEOPLE SUPPLIED AND INFORMED IN AN EMERGENCY.

Two major bursts left thousands of people without water during the Christmas holidays. Around 5,000 Norfolk homes were cut off by a burst at the Caistor St Edmund Water Treatment Works on 28 December 2014.

With the damaged main six metres beneath waterlogged ground, there was a huge mobilisation of alternative supplies. This included 11 tankers, the largest number ever deployed in the region. People from across the business and its key partners worked around the clock to restore supplies and let customers know what was happening.

Many employees cancelled or cut short their holidays to work in wet and freezing conditions and help in any way they could. We also received exceptional support from local communities and the Red Cross.

Then, just as things were getting back to normal, there was another burst nearby on New Year's Eve.

Another huge effort got this second burst repaired and supplies restored on New Year's Day. The Incident Room was finally shut on 2 January 2015 after running continuously for more than five days.

## THE RESPONSE IN NUMBERS

As work went on to reach and repair the main, the Company's ability to keep people supplied was put to the test.

**11**

CLEAN WATER TANKERS BEGAN FILLING LOCAL WATER TOWERS AND STORAGE TANKS.

**46**

STORAGE TANKS WERE DEPLOYED AROUND THE AFFECTED AREA.

**42,000**

LITRES OF BOTTLED WATER WERE DELIVERED TO THE MOST VULNERABLE.

## KEEPING PEOPLE INFORMED

There was also a major effort to keep customers and the media up to date with the Company's efforts. Many people took to the Company's Facebook page, the letters pages of local papers and to Twitter, to praise the hard work of those on the ground and the way in which they had been kept informed.



**paulrussell**

@AnglianWater back online here in Poringland. Please pass on thanks to everyone who's worked to get us going again. Feels good to wash!!



**crystalsreiki**

We have water at home! So pleased! Thank u @AnglianWater - best present ever. Makes u realise what we take for granted



**Kirsty Snowden**

Woohoo!! Well done Anglian Water for working through the night to give people their water back. Amazing engineering at its finest



**Irene Howard**

Many thanks to all concerned in restoring our water supply and the cheerful helpful staff handing out bottled water. Well done AW!



**Donna Pye**

Thanks to AW who have clearly worked so hard in freezing cold conditions! Excellent communication and customer care...



**Ross Bangs**

Well done Anglian Water, these things happen and given the circumstances of what sounded a very challenging situation, I feel that your response and comms have been excellent!

## YOUR SERVICE

## OUR CULTURE IN ACTION CASE STUDY

# WORKING WITH FARMERS – METALDEHYDE

A PRIORITY FOR OUR NEWLY APPOINTED CATCHMENT ADVISORS IS WORKING WITH FARMERS TO SOLVE PROBLEMS CAUSED BY THE WIDESPREAD USE OF METALDEHYDE.

Metaldehyde is the most common pesticide for the control of slugs, which can cause real damage to oil seed rape and wheat crops. Although applied as pellets, these easily dissolve and wash into drains and water courses when it rains.

Conventional water treatment struggles to remove metaldehyde and, while it is not thought harmful to health, its presence in drinking water is clearly undesirable and in breach of the stringent drinking water standards.

Between October and December, high levels of metaldehyde in the region's rivers forced us to stop abstracting water at 10 locations to stop it reaching treatment works.

While this tactic successfully protected water quality, it is not sustainable. We must abstract during these wetter months to maintain reservoir levels and reliable supplies of drinking water.

The UK needs the crops grown in our region and slug control is essential. However, there are effective alternatives that ensure healthy crops and healthy water.

We believe the solution lies in closer collaboration between the water sector and agriculture. During AMP5 we have modelled those areas where metaldehyde use is most likely to affect water quality in our reservoirs. Our Catchment Advisors will help us work with farmers and agronomists in these areas as part of our Catchment Management Strategy.

Richard Reynolds,  
Senior Agronomy Advisor

## MEET THE TEAM

The new team of Catchment Advisors all have hands-on experience in agriculture, and will be known to many in the region's farming community.

It is led by Richard Reynolds, who trained as a soil scientist in South Africa and carried out research for arable, dairy and beef farming businesses before moving to the UK eight years ago. Since then he has worked with AB Agri, ADAS, PepsiCo, Sainsbury's and Natural England on a range of farming issues.

"We wanted advisors with a strong knowledge base and experience of working alongside farmers and agronomists. I think we have achieved that with this team and I'm extremely proud and excited to see them starting to make the vital connections that need to be made.

"As well as offering practical, up-to-date advice, I also want them to be listening to the community, hearing about the challenges farmers are facing and the ideas they have. I believe this is the start of a much closer relationship between Anglian Water and Anglian farmers."

## HALL WATER TREATMENT WORKS

The newly built Hall Water Treatment Works takes water from the River Trent to supply the growing city of Lincoln. It was designed to use an innovative treatment process that can remove the high levels of metaldehyde sometimes found in the Trent.

However, the process is more than twice the price of conventional treatment, using more chemicals and energy. It works at Hall because the site is relatively small, but the technology cannot be scaled up for use across the region.

Hall Water Treatment Works was opened in 2014.

# PERFORMANCE REVIEW

## OUR WORLD

### SUPPLY MEETS DEMAND

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

The new river intake for Hall Water Treatment Works under construction on the banks of the River Trent.

We operate in one of the fastest growing regions of the UK, in an area of water stress that contains many wetland and conservation sites of national and international importance. To meet the needs of customers and the environment, we are continually planning and investing to maintain the balance between supply and demand. Overall, our aim is to provide reliable, affordable and sustainable water and water recycling services.

## KEY HIGHLIGHTS

PUBLICATION OF OUR WATER RESOURCES MANAGEMENT PLAN AND OUR UPDATED DROUGHT PLAN

COMPLETED OUR PROGRAMME OF WORK FOR AMP5 WITH NEW SOURCES OF SUPPLY IN NORFOLK AND LINCOLNSHIRE

### Looking back

Our programme of work for AMP5 is now complete. This included a large number of demand management initiatives, several new sources of supply and several transfers from areas of surplus to areas of deficit.

Investigations were also carried out into any possible impact of our operations on the environment, in particular our abstraction of water from rivers and aquifers to supply homes and businesses.

We also invested to increase the resilience of our supply system, both to drought and the effect of catastrophic water treatment works failure.

Work was completed on our innovative new Hall Water Treatment Works on the River Trent; we delivered new, more sustainable sources of supply for Sheringham and Ludham and dual sources of supply for customers in Scunthorpe and Boston.

### Resources used and affected

Financial  
Manufactured  
Natural

For water recycling services we increased our overall treatment at our Cambridge, Bedford and Uttons Drove Water Recycling Centres and completed work on the new Kettering trunk sewer.

## CASE STUDY

## ALCONBURY WEALD

**RAF Alconbury was an operational air base from 1938 to 1995 but is now surplus to requirements. It has been earmarked for development and work is due to start later this year on 5,000 homes.**

Called Alconbury Weald, the development will also provide 8,000 jobs and significant community amenities next door to Anglian Water's Huntingdon headquarters.

Significant new infrastructure is needed and we have already been working with the developers for a number of years. Together with the Environment Agency we have supported the site through the planning process and are now entering the multi-million-pound infrastructure delivery process.

### Planning ahead

This year we published both our Water Resource Management Plan, which lays out how we will balance supply and demand up to 2040, and our updated Drought Plan. Together with our Business Plan, these documents describe the investments we are planning in the short, medium and long term.

For AMP6 these include:

- Managing demand for water by cutting leakage to 172 MI/d against a regulatory target of 211 MI/d for AMP5; increasing levels of domestic metering to 95 per cent and completing 120,000 water efficiency audits. In total, these initiatives will reduce demand by 51.9 MI/d.
- Relocation of our abstraction point on the River Wensum in Norfolk. The Environment Agency's Restoring Sustainable Abstraction programme judged this to be having an impact on part of the river designated as a Special Area of Conservation. We have agreed to move our operation downstream at a cost of about £20 million. There will also be environmental investigations on other rivers, including the River Nar in Norfolk and the Laceby Beck and Skitter Beck in Lincolnshire.

- Resilience schemes, including initial investigations and work on a large transfer of water from the River Trent. This would support our Rutland, Grafham and Pitsford reservoirs during extended periods of drought.
- For water recycling, a series of catchment scale sustainable urban drainage schemes, an overall increase in treatment capacity of 295,000 population equivalent, a programme of investigations and works for mitigating flooding risk and the risk of pollution from combined sewer outfalls and emergency overflows, and a large programme of work to stop water infiltrating into sewers.

### Planning for growth

Growth is back. We already serve the fastest-growing region in the country and this trend is expected to continue, with work due to start on several large, complex developments.

These include the Milton Keynes Western Expansion (7,000 dwellings), Northstowe near Cambridge (10,000 dwellings), the East of Kettering (5,500 dwellings) and Attleborough South in Norfolk (4,000 dwellings).

We have a duty to provide water and water recycling services to new homes and businesses and play a key role in enabling growth. To make sure we can meet future demand, we work closely with Local Planning Authorities, developers, the Environment Agency and others.

This year has seen a 40 per cent increase in developers requesting planning advice using our voluntary pre-planning capacity service. This service helps developers to make good planning applications, setting out how they can connect to our network without increasing the risk of sewer flooding, pollution and low water pressure.

We have also increased our planning services team to provide more support for Local Planning Authorities. Each Authority is required to produce a Local Plan, which identifies sites for future house building. We support this planned approach to new development and help councils in drawing up their plans. This year has seen a 15 per cent increase in our workload.

## PERFORMANCE REVIEW

### OUR WORLD

## FLOURISHING ENVIRONMENT

**A flourishing environment, for nature and for everyone**

### CASE STUDY

## SEARCHING FOR POLLUTION FROM THE AIR

**This year we became the first water company to bring in aerial survey experts to search for signs of pollution.**

Independent environmental consultants APEM flew the entire 777 miles of the region's coastline capturing high-resolution images of possible sources of pollution, including livestock, rubbish tips, industrial sites and caravan parks.

Most have nothing to do with the sewerage network but can have a big cumulative impact at the beach.

Potential issues can be followed up face to face by our Coastal Catchment Managers.

### KEY HIGHLIGHTS

99.9 PER CENT OF OUR SSSIs ARE IN 'FAVOURABLE' OR 'RECOVERING' CONDITION

ENTERED A NEW PARTNERSHIP WITH NORFOLK WILDLIFE TRUST TO MANAGE DEREHAM RUSH MEADOWS, A NATIONALLY IMPORTANT WETLAND

ALL 48 OF THE REGION'S BATHING WATERS HAVE MET EUROPEAN STANDARDS FOR THE 13TH YEAR RUNNING

APPOINTED A DEDICATED COASTAL CATCHMENT MANAGEMENT TEAM

### **Caring for land and wildlife in partnership**

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 conservation charities, local groups and Natural England to get the 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.

We have longstanding partnerships with local Wildlife Trusts to manage our most important places for wildlife.

One of these, Rutland Water, was voted Britain's favourite nature reserve in a poll by *LandLove* magazine. Its popularity underlines the successful 40-year partnership we have with the Leicestershire and Rutland Wildlife Trust and is recognition of the tireless work undertaken by its volunteers.

In 2014 we entered a new partnership with Norfolk Wildlife Trust to manage Dereham Rush Meadows, a nationally important wetland in the heart of Norfolk. Their expertise will ensure the site, which is next to Dereham Water Recycling Centre, can be conserved, enhanced and enjoyed by local people.

Away from our own sites, we have been long-term supporters of the Lincolnshire Chalk Streams Project. Last year our financial support enabled the project to secure £214,000 worth of funding to enhance chalk streams across the county.

Anglian Water's RiverCare project, managed in partnership with Keep Britain Tidy, supports volunteers to care for their local stretch of river. In September, RiverCare marked World Rivers Day, with 1.5 tonnes of litter collected by volunteers across the region.

#### CASE STUDY

## THE UV TECHNICIANS WHO SAFEGUARD OUR BEACHES

**Our bathing water performance is testament to both our targeted, long-term investment in coastal assets (£300 million since AMP3) and the hard work and dedication of our Operational Teams.**

Among these teams are Craft Technicians Darren Gilder and Phil Parker. They are UV Champions, who act as a source of best practice and advice on how to operate ultraviolet (UV) treatment.

UV is installed at many of our coastal water recycling centres, where it adds another layer of treatment, disinfecting recycled discharges into bathing and shellfish waters.

Without the dedication of staff such as Darren and Phil, it would be much harder for us to attain the bathing water classification under the revised Bathing Water Directive.

Last year also saw us produce a plan for biodiversity in and around our sites in Hartlepool. It describes the important species and habitats we can protect by doing work on our own sites or by working with community groups.

### Coastal waters

Coastal resorts are an important part of our region's economy, with around 29,000 jobs linked to seaside tourism.

The quality of our bathing waters is therefore of vital importance, both economically and environmentally, and Anglian Water works hard to make sure its operations do not affect it. We also work with local communities, agriculture and industry to prevent water quality being affected by diffuse pollution.

For the 13th year in a row, all 48 of the region's bathing waters have met the standards set out in the European Bathing Water Directive, with the majority (43) meeting the higher 'guideline' classification needed to apply for Blue Flag status this year.

This performance is one of the highest we have seen to date, but changes to the Directive mean that from this year, standards will be even tougher. We are responding to make sure the water quality at our beaches remains among the best in the UK.

Alongside a continued programme of targeted investment at our coastal sites and a strong focus on our day-to-day operational activities, we are increasing our emphasis on the impact of diffuse pollution at our bathing and shellfish waters.

Our data indicates diffuse pollution has a significant effect on bathing water quality in our region. Tackling it could well make the difference between a bathing water passing or failing the tighter standards.

Diffuse pollution can come from a number of sources, including run-off from towns and cities, agriculture, dog fouling, maritime activity and private sewerage systems, as well as from properties with their foul sewage misconnected to surface water drains.

To investigate further, we have appointed a dedicated Coastal Catchment Management Team. They will work with local authorities, coastal businesses, tourists, homeowners and the Environment Agency, to investigate and identify sources of diffuse pollution.

By collaborating in this way we aim to find sources of pollution that could affect our beaches and shellfish waters, and help to put solutions in place.

OUR WORLD

A SMALLER FOOTPRINT

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

**Carbon**

In their latest *Global Risks* report, the World Economic Forum lists the effects of rising greenhouse gas emissions and water supply crises among the most likely and damaging problems we face in the coming decade.

This reinforces our efforts to use natural resources sustainably to deliver both cost efficiencies and environmental benefits.

Many of our 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.

Our leading approach in measuring, managing and reducing both operational and capital (embodied) carbon continues to deliver considerable financial savings and innovation in our company and supply chain.



REDUCTION IN EMBODIED CARBON

KEY HIGHLIGHTS

EXCEEDED OUR LOVE EVERY DROP GOALS TO REDUCE OPERATIONAL AND EMBODIED CARBON FROM A 2010 BASELINE

MORE THAN £16 MILLION SAVED THROUGH ENERGY EFFICIENCY PROJECTS DURING AMP5

A THREE-FOLD INCREASE IN RENEWABLE POWER FROM BIOGAS BETWEEN 2010 AND 2015

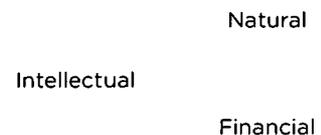
**Our carbon journey**

Our company's carbon journey started in 2006, with a recognition of the challenges we faced from a changing climate and a rising population.

In response to Ofwat's request for operational and carbon data for business plans, we created over 1,300 models to measure carbon within our investment plan and create a baseline.

The Board saw how reducing carbon could also make us more efficient by reducing costs and the energy and materials used to build and maintain our infrastructure.

**Resources used and affected**



In 2009 a bespoke carbon modelling tool was developed and made available to the supply chain. This allowed engineers to choose between designs when looking for the lowest carbon solution.

We also put in place two Love Every Drop carbon targets.

Over the five-year period from 2010 our goals have been:

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

## CASE STUDY

## BIOSOLIDS

**The biosolids produced from our water recycling process are a valuable product for farmers and an important source of income for our company. We also believe that recycling biosolids to agriculture is the right and most sustainable thing to do.**

It is hugely important that the food industry also has total confidence in our product. We have persuaded the water industry to back a national assurance scheme for biosolids and have funded its development.

Last year saw the incorporation of a new company, Assured Biosolids Ltd, which will be jointly owned by all the water and sewerage companies (WASCs) in England and Wales and which will administer the new scheme on their behalf.

Each company's sludge treatment and biosolids recycling operation will be audited and certified by an independent body. We are currently working to appoint the certification body, in conjunction with the United Kingdom Accreditation Service.

At the same time, we want to reduce the risk associated with recycling all our biosolids through one route to agriculture. Ultimately, we want to divert a third of our biosolids production into alternative, non-agricultural markets.

We have now been given 'end of waste' approval by the Environment Agency (EA) for a compost produced using biosolids. By composting biosolids with shredded green waste, we can create a high-quality product, which

has now been formally recognised as safe for people and the environment.

Branded as Nutriscape and produced by the compost plant at Cliff Quay Water Recycling Centre in Ipswich, this can now be sold for use in horticulture and landscaping, without being classified as waste.

Following the EA's decision we can now look to expand our strategy to include other composting activities at Great Billing and Whitlingham Water Recycling Centres.

One of the first steps was to prove that reduced carbon could mean reduced cost. This was done with early collaboration with the supply chain, by using off-site build and 'no dig' techniques for pipelines.

Throughout AMP5 we have not only exceeded our target of reducing our gross operational carbon emissions by 10 per cent in real terms but also delivered against our challenging and industry-leading goal of halving the embodied carbon in new assets we built in 2015 from a 2010 baseline.

From 2015 onwards our goals have been updated:

- To exceed a 7 per cent reduction in real terms in gross operational carbon by 2020 from a 2015 baseline
- To deliver a 60 per cent reduction in capital (embodied) carbon by 2020, and a 70 per cent reduction by 2030, from a 2010 baseline.

**This year**

Annual gross operational carbon emissions have decreased by 6 per cent in 2014/15 in comparison to the 2009/10 baseline, decreasing from 485,930 t/CO<sub>2</sub>e to 455,335 t/CO<sub>2</sub>e. This illustrates a fantastic performance over the five years of the AMP, not only mitigating against the forecast 10 per cent increase from new assets we have installed but delivering a further 6 per cent reduction in absolute terms against the baseline year.

The main influencing factors include:

- Electricity imported from the grid has reduced by a significant 8 per cent in 2015 from 2010
- Natural gas used in treatment process and combined heat and power reduced by 83 per cent in 2015 from 2010
- A three-fold increase in renewable power from biogas between 2010 and 2015.

## PERFORMANCE REVIEW A SMALLER FOOTPRINT

### CLIFF QUAY – SAVING ENERGY, MONEY AND CARBON

This year's energy efficiency project at Cliff Quay Water Recycling Centre in Ipswich is a perfect example of collaboration between us and our partners.

The project targeted the most energy-intensive part of the sewage treatment process, replacing the jet aeration system with a more efficient way of getting air into the sewage.

Ed Smith from the in-house Energy Team worked with operational staff, engineering colleagues and external organisations such as Air Technology to deliver the project, which reduced energy consumption by about 1.5GWh. This cut the site's annual energy bill by more than £90,000.

The project team also found ways to significantly reduce capital carbon and cost by re-using existing equipment such as the blowers, motor drives and instrumentation. Their work has reduced process problems, allowed other treatment processes to be switched off and improved the quality of water recycled back to the environment.

ACROSS AMP5 WE HAVE  
DELIVERED AROUND  
1,000 ENERGY  
PROJECTS, BRINGING  
OUR CUMULATIVE  
SAVING TO WELL OVER

**£16m**

Greenhouse gas emission data has been measured and reported in line with the Defra Environmental Reporting Guidelines published in June 2013. This includes revised values for our 2009/10 baseline.

Annual net operational carbon emissions have decreased by 8 per cent in 2014/15 in comparison to the 2009/10 baseline, decreasing from 485,307 t/CO<sub>2</sub>e to 446,834 t/CO<sub>2</sub>e.

Our design engineers and capital delivery teams have delivered a 54 per cent reduction in embodied (capital) carbon against our 2010 baseline, through focus on design, materials used and installation, and commissioning techniques in construction.

For the fifth successive year we achieved CEMARS (Certified Emissions Measurement and Reduction Scheme), evidencing our continued success in consistently delivering carbon reductions. This recognition sits alongside the Carbon Trust Water Standard, with Anglian Water the first water utility to achieve both carbon and water standards.

Anglian Water also chairs the Green Construction Board Infrastructure Working Group. Following the launch of the Infrastructure Carbon Review in 2013, we played a key role in organising the One year on event.

Close to 50 large infrastructure organisations have now endorsed the principles of delivering low carbon, low-cost solutions in economic infrastructure.

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.

### Energy strategy

Throughout AMP5 our energy strategy has ensured our energy supplies remain secure and that we measure, manage and reduce our energy costs – and the associated carbon emissions.

#### Energy efficiency

We have continued to ensure all new and existing assets are as energy efficient as possible. Through our Energy Initiative we have partnered with external energy specialists, delivered energy-saving projects and engaged the hearts and minds of our staff. This year we delivered energy projects that saved £1.5 million.

In total across AMP5 we have delivered around 1,000 energy projects, bringing our cumulative saving to well over £16 million. This has also made a significant contribution towards achieving our operational carbon goal.

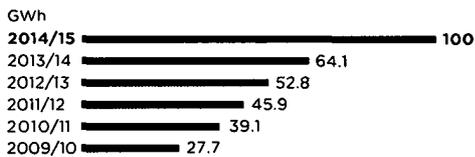
### Renewable energy

Last year we created an in-house team to operate and maintain our fleet of Combined Heat and Power (CHP) engines. These engines are fuelled by the biogas produced during our water recycling process. This year we achieved our biggest increase in energy generated by the fleet. The output of 89GWh was three times higher than we generated at the start of AMP5.

We were helped by our patented Heating, Pasteurisation, Hydrolysis (HPH) process. This conditions sewage sludge before treatment, leading to better quality biosolids for agriculture and five per cent more biogas for our CHP engines.

Our self-generation of renewable energy was boosted by two new wind turbines at our Newton Marsh Water Recycling Centre. This brings our total to 100GWh or 14 per cent of the electricity we use. That's enough to supply 25,000 homes.

### RENEWABLE ELECTRICITY



### Managing demand

Anglian Water provides two different services to National Grid that help them balance supply and demand and ensure there is enough power available during periods of peak demand.

We have been involved in Short Term Operating Reserve (STOR) throughout AMP5. This year we took part again, making more than 80 of our standby generators available to National Grid between April and October when they need extra generating capacity. This also generated an income for Anglian Water.

#### Resources used and affected

Intellectual      Natural

National Grid also launched their Demand Side Balancing Reserve (DSBR) in 2014/15. This service covers winter weekday evenings when the gap between supply and demand is tightest. Making our standby generators available earned us additional income and we have secured a contract for 2015/16.

Throughout the year, and in particular during the winter months, we manage the power we generate and import to maximise our export

income and minimise our peak tariff costs. This year such activities provided a benefit of more than £2 million.

### 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.

#### Our performance

We have been working to better understand how much we reuse and recycle in order to measure and improve our performance.

Starting in April 2013 all areas of the business were asked to report on their performance, and figures showed we recycled 96 per cent of waste across the business, contractors and supply chain in 2013/14.

However, there were a large number of different waste contractors and many parts of the business were reporting these figures for the first time. This led us to give a monthly confidence score to the data.

All business areas commonly achieved C, with some regularly achieving B.

To improve our confidence in the data we appointed Biffa as the sole contractor for dry wastes. The rollout is continuing and while several key areas are now using Biffa, the take-up has been slower than expected.

As a result, those areas using Biffa narrowly missed our target to achieve a confidence grade of B across the business in 2014/15. Nevertheless, our confidence in the data has increased.

Figures for 2014/15 show the business as a whole recycled 95.6 per cent of waste. Looking solely at waste generated by Anglian Water Services, the figure is 97.8 per cent.

Construction partners have been asked to focus on zero waste in AMP6 and we expect to see an improvement in their performance. We will also be looking at the rest of the supply chain to see how we can improve performance over the next five years.

We also plan to introduce a single, business-wide waste management process. This will form a key part of an integrated management system for the Company.

Waste permits require our staff to be competent in managing waste at sites and we have developed a new, tailored training programme, which will be externally audited and is being rolled out across the business.

## PERFORMANCE REVIEW

### OUR WORLD

## CARING FOR COMMUNITIES

Working responsibly with and for your community

“ My students went from strength to strength - I could see people with self-esteem issues growing in confidence. These events allow students to feel valued and that they are being listened to and taken seriously - they felt inspired.”

Paul Griffiths, Careers, Education, Information, Advice and Guidance (CEIAG) Co-ordinator at Thomas Clarkson Academy in Wisbech

### Engaging and educating our customers

Investing in education is vital if we are to put water at the heart of a whole new way of living. We have a programme of education to engage young people on issues such as water conservation and responsible use of the sewer network. Through long-term partnerships with schools in our region, we are improving the prospects of many more young people; widening their horizons, extending their aspirations and equipping them with valuable skills for later life.

The education programme allows us to support all schools in our region, with free sessions available to any school that requests one. Our Education Team

### KEY HIGHLIGHTS

SUPPORTED FENLAND DISTRICT COUNCIL IN SHAPING THEIR STRATEGIC VISION

SIGNED THE ARMED FORCES COVENANT, COMMITTING TO SUPPORT RESERVISTS AND HELP EX-SERVICEMEN AND WOMEN RETURN TO CIVILIAN LIFE

OPENED THE UK'S LARGEST INLAND BEACH AT RUTLAND WATER

BEST EVER HEALTH AND SAFETY PERFORMANCE

visits more than 182 schools every year. To measure the impact of our lessons, we survey each class, asking schools to rate their experience, suggest any improvements and make comments on behaviour change impact. Every school visited since September 2014 has rated the sessions as excellent.

### Business Class

We take part in Business in the Community's Business Class programme. This has allowed us to develop longer term partnerships with four schools in some of the most deprived areas of our region, focusing on specific issues of attainment and aspiration.

All our employees can give their time to good causes through our Love to Help employee volunteering scheme. We encourage staff to see volunteering as a great developmental opportunity and to use it to learn or practise new skills.

There are regular opportunities to volunteer for different events we run with the Business Class schools. Since it began two years ago, 94 of our staff have taken part.

Our partnerships are in their second year and, so far, we have run a number of successful interventions to raise aspirations, including:

- Students from each school attended our series of Business Innovation Conferences through 2014. They provided a fresh perspective to the innovation debate, shedding light on

## A BEACH FOR RUTLAND

Opened in the summer of 2014, the inland beach at Rutland Water is the largest of its kind in the UK – stretching along 180 metres of shoreline. It is the first of its kind for any water company in the UK.

The beach was opened after taking advice from a number of external bodies and organisations including the Royal Life Saving Society and Open Water Swimming Society, with weekly water quality tests carried out by Anglian Water's own laboratory team.

Visitor numbers to the Sykes Lane site have increased, and local shops and hotels have reported customers asking to buy buckets and spades.

how younger generations see the world. Our *partnership working with teachers and schools* has helped us to develop a number of new products, which we now use.

- We teamed up with media education company uCreate! to launch a film-making challenge to secondary school students across the region. Students were encouraged to use their creativity and multimedia skills to spread the Keep it Clear message by producing a 60-second film, which was a real call to action. The winning film will be produced by a professional film crew and the school will get £500 to spend on media equipment.

## 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.

Our aim is to make these parks into visitor destinations of choice and this year they played host to more than 600 competitions, charity and public events.

The prestigious Green Flag – the national standard for park management – was maintained by Rutland, Grafham and Alton Water Parks in 2015. A joint application between Anglian Water and Northamptonshire County Council for Green Flag status at Pitsford Water and Brixworth Country Park will be judged in the summer of 2015.

Highlights of a busy and productive year included the successful reinvention of our site at Taverham Mill into a wetland nature reserve, and the opening of a new inland beach at Rutland Water.

Over the next 12 months we will continue to develop our parks, with planning permission in place for an 88-pitch campsite at Alton Water. We have also formed a project team with local community partners to secure funding for new visitor and water sport facilities at Alton Water.

## Being an employer of choice

### Finding talent in different places

We aim to be an Employer of Choice in the UK. That requires us to offer interesting and attractive careers to both our existing and our prospective workforce.

One way we recruit talent is through our ongoing graduate and apprentice schemes.

We currently have 22 people on our two-year graduate development scheme. They are employed in either specific departments or on a rotational programme, which sees them gain a broad experience through a series of placements across the business. We continue to have a strong track record of keeping graduates in the business, with 87 per cent of those who joined in the last 10 years still with us.

There are currently 109 apprentices across our water and water recycling operations and a further 16 will join this year. Apprentices are vital to our long-term resourcing strategy and work alongside our more experienced technicians to transfer vital organisational and technical knowledge.

## PERFORMANCE REVIEW CARING FOR COMMUNITIES

### **They supported us, we support them**

The Armed Forces play an important part in the life and economy of our region, and former servicemen and women are making up an increasing proportion of our workforce. In the past year, more than 40 have joined in a variety of roles, including Customer Service Advisors, Plant and Network Engineers, Renewable Energy Managers and Tanker Drivers. They bring with them vital skills to help with the engineering challenge of maintaining and improving our network of pipes, sewers, pumping stations and treatment works.

In March, we signed the Armed Forces Covenant, making a formal commitment to help ex-servicemen and women land on their feet in civilian life.

As part of that commitment, we advertise all our vacancies through the Ministry of Defence's Career Transition Partnership, which helps service leavers make the move to civilian life. We also work with the Recovery Career Services to help disabled veterans find work.

### VERA

For Vera Oliveira, an Anglian Water apprenticeship was a really significant step.

Now working as a trainee Process Technician in Water Recycling, she said: **"I knew I had the potential but Anglian Water provided the opportunity.**

**"The trainers had the scientific knowledge but also the practical experience. In the workplace my colleagues quickly made me feel welcome and lots of times went out of their way to help me progress.**

**"I appreciate the investment that the Company has made in me and I want to justify it through loyalty and hard work in the years to come."**

### **Developing those already with us**

The many challenges facing us provide plenty of opportunities to transform our business for the better. To be successful we must drive fresh thinking in everyone across the Company.

We are working with Loughborough University and management consultancy, Lane 4, to deliver a two-year development programme for senior managers. This will encourage the fresh thinking needed to make sure Anglian Water continues to lead the way in shaping what a 21st century water company should be.

At the same time, we continue to offer our employees opportunities and support to develop their skills for the benefit of themselves and the

### RICK

Rick Woodroffe left the Army as a Corporal in the Corps of Royal Engineers last year. With help from the Career Transition Partnership he went through extra training and got a job with Anglian Water as a Craft Technician, helping to maintain the sewer network in Norfolk.

During two tours of Afghanistan, Rick maintained everything from generators and fuel storage facilities to tanks.

He said: **"It is very different from maintaining water recycling facilities, but the principles are the same. There is a team of people I work with, but it's my responsibility to get out there and fix equipment to keep the whole network functioning. Norfolk is nothing like Afghanistan, but I am still playing a role in a vital service."**

Company. For example, we pay for employees' membership of professional institutes that fit with our organisational aims, and can help them develop.

Our Licence to Operate programme for front-line technicians and their managers continues to play an important part in laying the foundations for careers. It works by setting benchmarks for competency in specialist and management skills and providing recognised qualifications awarded by professional bodies such as the Science Council and the Institute of Leadership & Management.

### **Different generations, same goals**

We want a culture of collaboration across teams, with our partner organisations and across the different generations. Specifically as more Generation Y employees join us, we want to create a focus on effective cross-generational working. With this in mind we held the first of a series of events to explore how the different generations can better understand each other and value and respect the different things they bring to the workplace, including the digital and technology skills of Generation Y. More than 100 people attended and they have already seen policy and process changes as a result.

### **Love to listen**

This year more than 2,600 employees took part in an employee survey, anonymously sharing their views on a wide range of issues including how they were managed and led.

The results showed us to be in the top 25 per cent of UK companies surveying with IBM on employee engagement. Likewise, we were in the top 25 per cent for customer focus (90 per cent), employees understanding our goals (81 per cent) and having clear performance standards (80 per cent).

There were also clear areas for improvement, including adapting to change, where 54 per cent of those surveyed wanted more support to help them adapt. We also found 57 per cent wanted greater collaboration between teams.

## KATIE

Katie Archer joined Anglian Water in January 2011 as a Management Accountant after self-funding the first 18 months of her professional qualification (ACCA). **“They took me on as they saw my potential, not just my experience,”** she said.

Anglian Water supported Katie to become a fully qualified accountant. Following a promotion in July 2012, she was enrolled in the Institute of Leadership & Management Level 3 course. This is a nationally recognised qualification for people likely to become team leaders, or who are already in post but have had little formal training.

Katie said: **“It was because of my ILM journey that I had the confidence to apply for my current role of Finance Manager.**

**“The ILM programme has changed me for the better. I have now enrolled in ILM Level 5 and am working with HR to start a finance mentoring programme to ensure we pass these skills onto the Finance Managers of the future.”**

Support and training have been put in place to help managers understand and respond to their own results, empowering them to take action locally and according to the needs of their own teams. At a corporate level work is underway to encourage more collaboration right across the business, with departments making improvements to processes and communication channels. A key aspect is to involve front-line employees and their suggestions. Our people need to know we are listening to them and it is their skills and experience that will bring us success.

### Gender diversity

Despite being a highly engineering-biased organisation, women are represented at all levels of the Company, accounting for 33 per cent of our technical experts and 21 per cent of our senior managers. Currently, 25 per cent of our Executive

Directors are women and female Directors represent 12.5 per cent of the AWS Board. Women make up 34 per cent of our people managers and in recent recruitment 60 per cent of our graduate population is female. Overall, 30 per cent of our employees are female and 70 per cent are male. The Company is committed to equality, having reviewed its diversity and equality policies in 2014/15 and is now implementing its diversity plan during 2015/16.

### 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 on the following pages.

### Keeping everyone healthy and safe

Whatever the job, however urgent the deadline, we never compromise on health or safety.

Our approach 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.

### Taking responsibility, improving procedures

We are facing prosecution by the Health and Safety Executive (HSE) for two incidents that happened in October 2013 and February 2014. Both incidents, the first at Dunstable Water Recycling Centre and the second at Saffron Walden WRC, involved employees who were injured in falls. Although the employees concerned were fully qualified for the tasks they were performing, we recognise that there was some scope for improvement both in the safe system of working the particular pump lift at Dunstable WRC and in the supervision of the employees involved in that lift activity. We have co-operated fully with the HSE throughout its investigations, and taken significant steps to reduce the risk of a repeat. The action plan was personally overseen by our Director of Water Recycling. We spent £1.2 million last year specifically to improve the safety of those working at height, and we will do even more in the coming year.

## PERFORMANCE REVIEW

# CARING FOR COMMUNITIES

### Working with our partners to improve health and safety

We have always recognised the important role our partner suppliers and contractors play in ensuring health and safety. In November we held a health and safety conference attended by more than 300 of our managers and safety representatives together with those from our key partners. Guest speakers shared their personal thoughts and feelings about being involved in a workplace accident and gave insights into the importance of a healthy diet. Delegates also took part in an interactive, high-impact theatre show focused on process safety and the lessons learnt following the Deepwater Horizon incident. With our new, long-term alliances in place, we will be working alongside companies that are industry leaders in health and safety. We will be sharing best practice and further improving standards on site.

### BITC Workwell Model

### Health is the new safety

We are committed to benchmarking and publicly reporting our approach to health and wellbeing against the Business in the Community (BITC) Workwell Model. This sets out the actions businesses need to take to create an environment where employees can make informed, healthy choices.

In addition, we will be holding a series of road shows to encourage people to take better care of their health and giving them the opportunity to receive a mini-MOT health check. We will also be continuing our successful Get Active health and wellbeing programme, which launched in 2012.

### 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.

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 over the last two years. All our drivers have now completed an online risk assessment and received tailored tips on how to drive more safely. Those at highest risk had the chance to attend Drive Safe workshops delivered by expert trainers.

### Among the best in the business

For the 11th 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 awarded a Gold Medal. This places our health and safety performance among the very best in the industry. This follows on from last year's Highly Commended, an accolade awarded for our consistently excellent and continuously improving health and safety.

### Safety in numbers

This year saw our best ever performance in terms of the frequency and severity of accidents and the number of days lost to sickness. 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	2014/15	2013/14	2012/13
<b>Category 1 incidents - ≤10</b>	<b>4</b>	11	8
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>	<b>0.16</b>	0.21	0.16
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>	<b>4.79</b>	4.96	5.56
The average number of working days lost per employee due to sickness.			

## OUR WORLD

## OUR CULTURE IN ACTION CASE STUDY

# RESPONDING TO DROUGHT, BUILDING RESILIENCE

THREE YEARS AGO OUR REGION WAS IN DROUGHT. STARTING IN 2010, TWO DRY WINTERS SAW RIVERS DROP, AFFECTING WATER LEVELS IN OUR RESERVOIRS AT RUTLAND, PITSFORD, HOLLOWELL AND RAVENSTHORPE.

Image showing the much lower than usual water levels at Pitsford Water, Northamptonshire, in February 2012.

As the drought spread it also affected water treatment works with direct river intakes, while groundwater levels also dropped without the rainfall needed to recharge aquifers.

We maintained supplies thanks to resilience schemes put in place after previous droughts, the use of drought legislation to abstract from rivers under low flows and restrictions on the use of hosepipes.

Nevertheless, a third dry winter would have caused problems for many parts of the region. Our response was an investment plan to further manage the risks associated with a long-term drought.

#### SCHEMES INCLUDED:

- Two new, groundwater-fed treatment works at Pulloxhill in Bedfordshire and Postwick near Norwich

- New boreholes at Wellington Wellfield and Didlington in Norfolk. Together these schemes will increase deployable output by approximately 25 Ml/d
- Improving connectivity in our Ruthamford system by investment in large-capacity pipelines and pumping stations
- Further development of a scheme to allow the transfer of River Trent water to Rutland to guard against a third dry winter.

#### WATER RESOURCES EAST ANGLIA PROJECT

Anglia Water must do everything possible to prepare for what are called multi-season droughts - those that would see three dry winters in a row.

Our ability to maintain the balance between supply and demand is

also threatened by climate change, population growth and the need to reduce abstraction to protect the environment.

We need other big abstractors from agriculture and industry to address this with us, alongside our regulators and conservationists.

The Water Resources East Anglia (WREA) project is a joint approach, bringing the east of England's water companies together with farmers, conservationists and regulators to develop a long-term, joined-up plan.

It will look at long-term options, including winter storage reservoirs, desalination, water reuse, aquifer storage and recovery, water grids and trading as well as significant and lasting reductions in leakage and in people's consumption.

#### IN FIGURES:

##### PULLOXHILL

6 ml/d

WATER SUPPLIED

£8.68m

COST

##### POSTWICK

7.2 ml/d

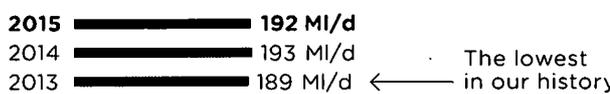
WATER SUPPLIED

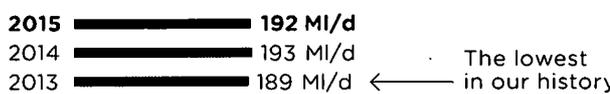
£13.394m

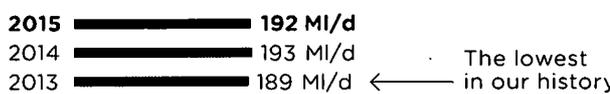
COST

#### MANAGING DEMAND

We also made the decision to drive down leakage rates below the target of 211 Ml/d set by our regulators, and continue our efforts to reduce consumption by increasing our customers' use of water meters.

2015  192 Ml/d

2014  193 Ml/d

2013  189 Ml/d

The lowest in our history

Our Business Plan sets out further reductions to bring the level down to 172 Ml/d by 2020.

# WORKING TO TRANSFORM FENLAND

WE ARE COMMITTED TO CARE FOR AND MAKE A POSITIVE DIFFERENCE TO THE COMMUNITIES WE SERVE. IN FENLAND, THAT MEANS TACKLING THE AREA'S DEPRIVATION, ISOLATION AND UNEMPLOYMENT.

The aim is to be a catalyst for change, helping those already working hard to build people's skills, aspirations and opportunities and to promote enterprise.

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Visitors to Anglian Water's stand at the Fenland Jobs & Skills Fair.

Key to our success has been the decision to second a senior operations manager to the charity BITC. He is working in Fenland as a Business Connector, bringing the area's local authorities, charities and community groups together with local businesses such as Anglian Water to tackle a range of complex issues.

We are able to offer practical support for the initiatives that result, and have increased our impact by working together with our capital delivery partners.

## NUMBERS

19

PEOPLE NOW IN JOBS THANKS TO WISBECH JOBS CAFÉ AND THE FENLAND JOBS & SKILLS FAIR

2,000

PEOPLE HELPED THROUGH JOBS CAFÉ, JOBS FAIR, SCHOOL ACTIVITIES, CAREERS CONVENTIONS AND COMMUNITY FORUMS

## OUR PARTNERS

### SO FAR WE HAVE:

- Helped homelessness charity the Ferry Project to lease and renovate a disused school, turning it into a thriving community centre. It is now home to 20 community groups and a monthly Jobs Café. In 2014 it was where we helped to stage Wisbech's largest ever Jobs Fair.
- Inspired students at Thomas Clarkson Academy in Wisbech. With our Alliance partners we held a careers convention for more than 600 pupils, showcasing apprenticeships and work in construction and engineering. Students were invited to our Supply Chain Innovation conference to help raise aspirations and let them meet with business leaders.

### CREATING A STRATEGIC VISION

To create real, long-lasting change we need to tackle the underlying causes of isolation, lack of opportunity and low aspiration.

We have been supporting Fenland District Council with a transformative vision called Wisbech 2020, bringing together public and private-sector partners. The aim is to deliver major improvements to North Cambridgeshire's infrastructure and to unlock growth.

This has involved lobbying for a direct rail service between Wisbech and Cambridge to reduce isolation and open up the jobs market in an efficient and sustainable way. As a result, the need for this rail link has been recognised in the Prime Minister's long-term economic plan for the east of England.

### PETER SIMPSON, ANGLIAN WATER CHIEF EXECUTIVE

"This is a real and long-term commitment to Fenland. The hope is to build something which will be self-supporting; a solid base on which the area and its people can grow and thrive to the benefit of all."

GETTING IT  
RIGHT FOR YOU

## INVESTING FOR TOMORROW

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

**£486m**

CAPEX EFFICIENCIES IN AMP5

### World-class asset management

We were one of the first companies in the world to achieve ISO 55001 accreditation, the new international standard in asset management. This year, we not only retained that accreditation but demonstrated continuous improvement in our approach to asset management.

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

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 international standard builds on this and has been developed with organisations from over 30 countries.

### A successful AMP5

Throughout AMP5 (2010-15) we have worked hard to become ever more efficient. We have done this by challenging ourselves and setting stretching goals. These have been sustainable efficiencies we can maintain for the long term, not short-term cost cutting that would adversely affect the business.

### KEY HIGHLIGHTS

APPOINTED PARTNERS FOR OUR  
FOUR NEW AMP6 ALLIANCES

AGREED £8.4 MILLION OF  
PARTNERSHIP FUNDING FOR FLOOD  
AND COASTAL EROSION PROJECTS  
ACROSS THE REGION

EXCELLENT PERFORMANCE AT OUR  
WATER TREATMENT WORKS AND  
WATER RECYCLING CENTRES

STABLE SERVICEABILITY  
IN ALL AREAS

As a result, we outperformed our Final Determination on both opex and capex. On capex we made efficiencies of £486 million on a £2.4 billion programme.

This has allowed us to pay for £80 million of unfunded work, including the adoption of private sewers, and an increase in bad debt without passing on the cost to customers.

We have been able to plough £235 million into customers' priorities, protecting people against the impact of drought, reducing leakage and investing to increase the resilience and reliability of our assets.

It has also been possible to pass some of the efficiencies back to customers by lowering bills over the next five years.

Resources  
used and  
affected

Manufactured  
Financial  
Natural

# PERFORMANCE REVIEW

## INVESTING FOR TOMORROW

### A year of continued investment

In the last year of AMP5, 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.

During AMP5 we 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).

Looking to the next five-year period, we want to maintain efficient, low carbon delivery and push further, with a new drive around water footprinting.

To help make the transition into the new AMP as seamless as possible, we have included a £57 million early AMP6 programme as part of our 2014/15 delivery plan. This has allowed us to develop processes and initiatives and helped to bed in some of our new supply chain management partners in the four new and refreshed alliances.

This transition programme has included some early design work on resilience and water quality schemes to further protect our customers' supplies.

### AMP6 procurement and the new alliances

#### Collaboration is king

To deliver the outcomes our customers want demands the closest possible collaboration between us, our suppliers and our contractors. Experience has also shown us that close collaboration also gives us the most benefit in our capital delivery frameworks.

Ahead of the next five-year Asset Management Plan period (AMP6) we took the opportunity to change the way we deliver our capital investment. Our entire capital delivery was put out to market at the same time to ensure a consistent approach across the board.

We have now appointed our partners, grouped into four new alliances to help us deliver our services for the next 15 years.

All were appointed on the basis that they were signing up to deliver the outcomes agreed with our customers and the Love Every Drop goals that drive us towards those outcomes.

#### Resources used and affected

Social and relationship

Manufactured Financial Natural

#### Learning from experience

The four alliances replace the six framework agreements that went before. These alliances are different from those elsewhere in the industry, with an unparalleled degree of integration and alignment and the opportunity for longer term collaboration.

In forming them, we used lessons learnt from our work with partners in the @one Alliance, which had been in place since the start of AMP4.

These included:

- Commercial arrangements that align partners' return with our Final Determination
- Targets and arrangements that incentivise innovation and performance
- Stretching targets set around affordability, outcome performance and our carbon challenge
- A strong focus on culture and behaviour, leading to greater collaboration and a constant exchange of best practice
- A single alliance organisation, allowing some of our support services and back office costs to be rationalised across partners and programmes
- Engaging with the partners at programme rather than project level, enabling far greater degrees of standardisation and 'productisation'
- Developing common supply chain frameworks, providing scale benefits and more effective supplier management.

Signing the AMP6 alliance contracts. Clockwise from top left: IMWC; IMR Water Recycling; IMDS; IOS; IMR Water.

Applying these principles across all four alliances will create a greater scale of benefits, shared resourcing and exchange of best practice. This is an important development from our AMP5 model.

#### The new alliances

These are our four new alliances for AMP6 and beyond:

- **Integrated Main Works Capital (IMWC)**  
The largest of the new alliances is IMWC, which includes Balfour Beatty; Barhale; Grontmij; MWH; MMB, a part of Mott MacDonald; and Skanska, alongside Anglian Water, maintaining the @one Alliance name.  
  
In place since last May, it combines the work of Special Projects and the @one Alliance to cover all types of complex construction and refurbishment projects.
- **Integrated Operational Solutions (IOS)**  
This includes Morrison Utility Services, Barhale and Kier, and covers local refurbishment and maintenance across both Water and Water Recycling.
- **Integrated Metering and Developer Services (IMDS)**  
This includes Kier and Clancy Docwra, covering industrial and domestic metering, new housing and estate infrastructure and water efficiency audits.
- **Integrated Maintenance and Repair (IMR)**  
The last of the alliances covers network infrastructure maintenance for both Water – with partners Kier and Clancy Docwra, and Water Recycling – with Claret Civil Engineering, Danaher & Walsh, Clancy Docwra and Public Sewer Services.

## 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. This is judged using upper, lower and reference control limits.

Failure to maintain a stable serviceability assessment can see millions of pounds removed from maintenance funds in the next regulatory period, meaning less money is available for maintenance. It is therefore crucial to keep serviceability 'stable' to maintain our service in the long term.

The performance of our assets remained solid this year, with stable performance across all areas.

## Water

Throughout the year, we have delivered consistently good performance at our water treatment works and across our networks with all measures comfortably within our reference levels, except for 'unplanned interruptions to supply'.

Two exceptional events, one at Caistor Water Treatment Works and the second in the Ely Public Water Supply Zone, resulted in interruptions to supply that lasted for more than 12 hours. These two events resulted in us breaching our upper control limit for this measure.

However, having looked hard at these events, we have excluded them from our assessment. The exceptional circumstances involved mean neither reflects the overall serviceability of our network.

# PERFORMANCE REVIEW

## INVESTING FOR TOMORROW

Works  
Technician  
Martyn  
Burgess,  
carrying  
out on site  
analysis.

### Water recycling

This year saw continued improvement in our water recycling operation, with excellent performance at our Water Recycling Centres. We ended the year with nine failing works, down from 16 the year before. This is our best performance since 2007 and well below our lower control limit of 14.

Our success is largely due to closer management of sites, helped by improved monitoring. Instead of being recorded manually, samples taken on site are now entered on to our system through laptop computers. This measurement point data is combined with data from telemetry and lab samples to produce regular reports. These allow us to see how individual sites are performing in almost real time. As a result we can be much more proactive, responding to potential risks before problems arise.

We also saw further improvement in the performance of our sewerage network, with fewer blockages and collapses, while flooding and pollutions remained largely stable. This was thanks to our programme of planned preventative maintenance, the continued success of our Keep it Clear campaign and 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
- Predictive analytics – a new modelling tool developed during 2014 uses information on past pollutions to predict which parts of our network may have problems in the future. This allows much more targeted and effective surveys to find and deal with any problems before they cause pollution.

The number of category 1 and 2 pollutions dropped this year from nine to seven. We will continue to challenge and evolve our approach to drive performance towards our goal of no pollutions.

### Prosecutions

We were fined £50,000 in June 2014 after Ingrave Hall Wood Pumping Station caused a discharge into Haverings Grove Brook, a tributary of the River Wid, in April 2011.

Heavy-duty pumps at the pumping station failed to pump forwards, but continued to operate while blocked, causing sewage to enter the brook through an overflow. We believe that part of the system of alarms at the pumping station became clogged with debris and 'rag', placed into the network by persons unknown, which prevented an alarm being triggered.

The incident appears to have been caused by fly-tipping of unauthorised waste, and the judge found we had low culpability for the incident. Nonetheless it led to a breach of our permit and the death of 1,500 fish.

Following the incident we installed fencing around part of the pumping station and CCTV to discourage fly-tipping. We also replaced all the pumps and installed more alarm sensors at the site. We created additional storage capacity at the pumping station in case debris or rag is placed in the sewer network again in future.

We were also ordered to pay a contribution to the prosecution costs of £44,736.

## HOW WE HAVE PERFORMED

	2014/15	2013/14
Serviceability water non-infrastructure	STABLE	STABLE
Serviceability water infrastructure	STABLE	STABLE
Serviceability sewerage non-infrastructure	STABLE	STABLE
Serviceability sewerage infrastructure	STABLE	STABLE
Sewer flooding incidents	134	116
Pollution incidents (sewerage) (Category 1 to 3 incidents per 10,000km of sewer)	87.3	87.1
Serious sewerage pollution incidents (Category 1 and 2) per 10,000km of sewer	1.8	2.2
Discharge permit compliance	98.6%	97.5%

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 page 59.

## COLCHESTER - IMPROVEMENTS MADE AND A LESSON LEARNED

In 2013/14 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.

The failure happened in 2013 as we were testing a new treatment process at the site. This was part of an upgrade to cope with a growing population. The new process had been installed successfully at another site, increasing its capacity without the need to build new infrastructure.

We were testing how the new process would perform under extreme conditions when the area was hit by severe wet weather. This sent large flows pouring into the site and these, combined with the test conditions, led to a fall in the quality of water being returned to the environment.

The growth scheme at Colchester is now complete and working well. The site is now performing better than before and with no further problems.

We have learned from the experience. Work at large Water Recycling Centres will now include extra investigations into how new technologies might affect existing processes. There will also be extra scientific support on hand for schemes of this scale.

For larger sites with complex operations, Anglian Water now routinely uses project boards to ensure focused, detailed decision making.

We remain committed to using innovative, low-cost, low carbon technology wherever possible.

## Fighting the floods

Flooding is a complex problem and one that is likely to become more common, bringing an increased threat of disruption to our services.

Tackling this threat needs close collaboration between numerous 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 have worked with the Environment Agency and the 21 Lead Local Flood Authorities (LLFAs) in our region to identify planned flood prevention projects with benefits for our customers.

### Resources used and affected

Manufactured

Social and relationship

Natural

We have now agreed to provide £8.4 million of partnership funding for projects across the region during AMP6. Working in partnership allows us to deliver more for less, reducing flooding and pollution incidents and maintaining our customers' water recycling service.

Turn to page 58 to see how this partnership approach has been used to fund flood prevention work on Canvey Island in Essex.

## PERFORMANCE REVIEW

# INVESTING FOR TOMORROW

### **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 year we completed our first two SuDS retrofit schemes to help reduce the risk of flooding to a number of customers in Norfolk and Suffolk.

These schemes have been completed to varying degrees of success. Both are working to reduce flood risk, but a number of customers living nearby and unaffected by the flooding were unhappy with the disruption and changes to public open space.

These were pilot schemes and it is essential we learn lessons from them, most notably the need for better public engagement and that work in public open space does not only affect those living nearby.

### **Innovation**

Innovation is vital if we are to meet the challenges and seize the opportunities facing our business. We want Anglian Water to spur innovation that transforms not only our business but our region too, creating wealth and jobs.

That innovation can be seen across the Company.

Smarter, more integrated systems are driving a more efficient, proactive approach, alongside advances in pressure management, monitoring and predictive analytics; new construction techniques are reducing our carbon footprint and costs; novel processes are increasing renewable energy production and helping to make waste a thing of the past; and improvements to systems and procedures are driving ever better customer service.

#### **The Innovation Shop Window**

We want to bring these advances together in one place, to show in microcosm what a 21st century water company should look like.

The area around Cambridge and Newmarket has been chosen as an Innovation Shop Window, where we will showcase the combined effect of existing and future innovation.

Along with our industry-leading work to reduce blockages and water consumption through community engagement and education, the aim is to achieve the following goals: zero leakage; zero bursts; no pollutions or incidents; 100 per cent customer satisfaction; water consumption of 80 litres a day per head; energy neutrality; good-quality water status; and chemical-free drinking water.

This will need close collaboration with our alliance partners and others. We will work with our Water Innovation Network (WIN), helping the more than 500 organisations involved provide novel solutions to problems we encounter.

### **Cross-sector working**

During 2014 we held a number of innovation events across our region, bringing together hundreds of organisations around the themes of Energy and Water; SMART Technology; Innovation through the Supply Chain; and Water, Food and Agriculture.

This cross-sector thinking led to some great ideas that are being followed up in the Innovation Shop Window and beyond.

### **Think Space**

In 2014 we began piloting Think Space, a crowdsourcing project to tap into the best ideas from across the Company.

The online tool aims to engage the Company's 4,000-strong workforce, putting out challenges and inviting them to submit their ideas. In the first six months, the pilot generated 60 new ideas from around 300 colleagues.

Several ideas are now being taken up by the business.

## GETTING IT RIGHT FOR YOU

# FAIR PROFITS

**A financially responsible, efficient  
business earning 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 to domestic customers 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.

## KEY HIGHLIGHTS

AVERAGE BILLS TO FALL  
SEVEN PER CENT IN REAL TERMS

WATER AND SEWERAGE  
SERVICES JUST £1.10  
PER DAY PER HOUSEHOLD

TOTAL DIRECT AND INDIRECT  
TAX CONTRIBUTION OF  
£174 MILLION

### Lowering bills

In December, we agreed to Ofwat's Final Determination on our Business Plan for the next five years.

We are reducing our average bill by seven per cent in real terms in 2015/16, the largest reduction of all the water and sewerage companies in the industry. Bills will then stay flat before inflation for the rest of AMP6.

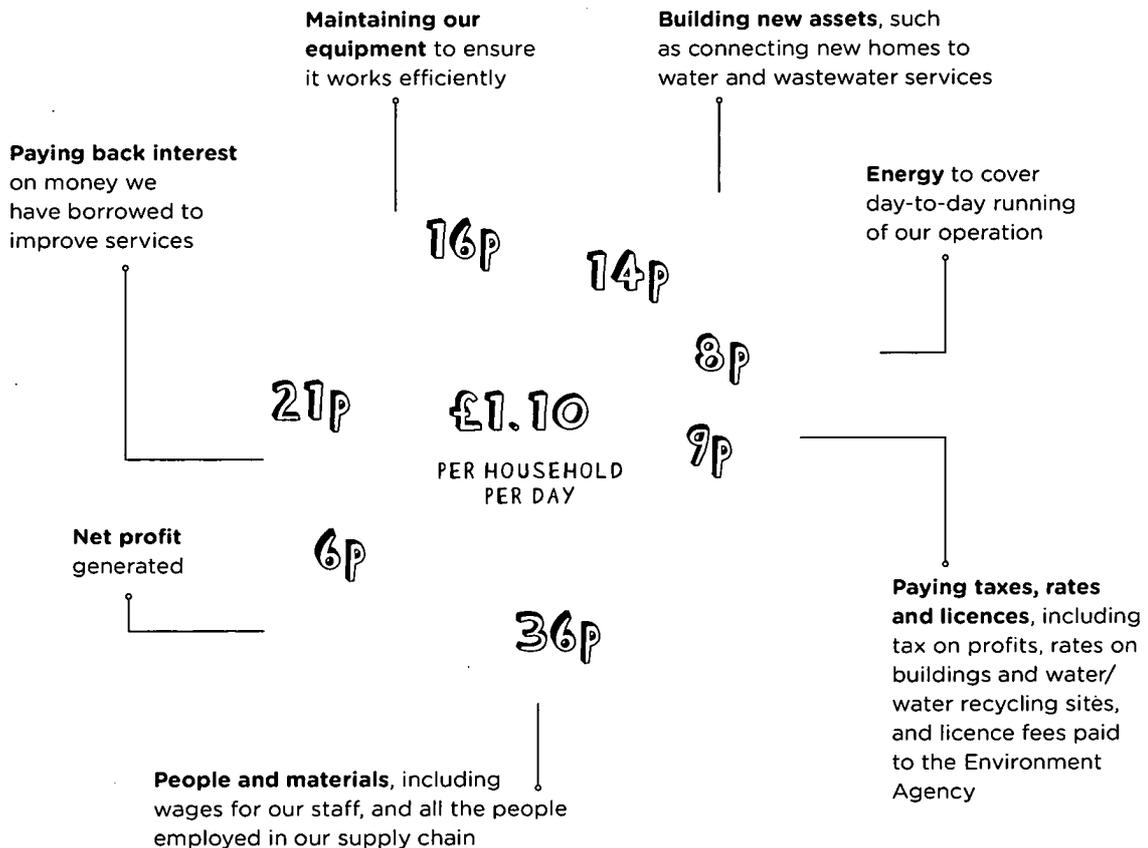
This follows our decision to limit the average bill price increase in 2014/15 to the Retail Price Index measure of inflation - below the level allowed for by the regulatory settlement.

A number of factors have made this possible:

- We have continued to become ever more efficient in our capital delivery and our operations. In the AMP6 price review process we have passed these efficiency savings on to customers through lower bills
- We have kept a tight focus on our cost base for AMP6, and despite increasing costs in some areas outside our direct control, and a growing customer and asset base, we are managing to limit cost increases

# PERFORMANCE REVIEW FAIR PROFITS

Based on the average household bill in 2015/16, water and sewerage charges will cost £1.10 per day. This is how we spend that money:



- The industry has been given a lower return on its Regulatory Capital Value and thus less revenue, which also means lower bills
- Customers have responded to our Drop 20 campaign to use less water. We have also kept leakage levels well below the target set by our regulator, and this means we are putting less water into supply than 25 years ago, despite an increase in our region's population. That's less water to abstract, treat and pump around our region, which means lower cost.

## Where does customers' money go?

Keeping bills low while maintaining investment in the things our customers value most was a key aim of our Business Plan. We know people have been feeling the pinch in recent years and that whatever we invest is ultimately underpinned by customers' bills. So it is important to show how that money is being spent and how it is delivering value.

We are proud of our record on efficiency and delivering value to customers. When the industry was privatised in 1989, Anglian Water had one of the highest average bills in the industry. By 2020 our average bill will be lower than the industry average.

### Resources used and affected

Intellectual      Financial

**“What the Company is proposing in its plan is, in our view, based on the evidence and information we have seen and challenged, a balanced and reasonable compromise with much greater sharing of pain and gain between investors and customers than in previous price reviews.”**

Dame Yve Buckland, Chair of the Customer Engagement Forum, 2011 to January 2015

### 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 significantly lower rate than assumed at a determination, this can adversely affect the company's finances. Conversely, when inflation outturns at a higher rate it 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.

### 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 RPI falling below zero; in responding to the drought in 2012; and in absorbing the costs of new obligations and regulatory changes.

### 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.

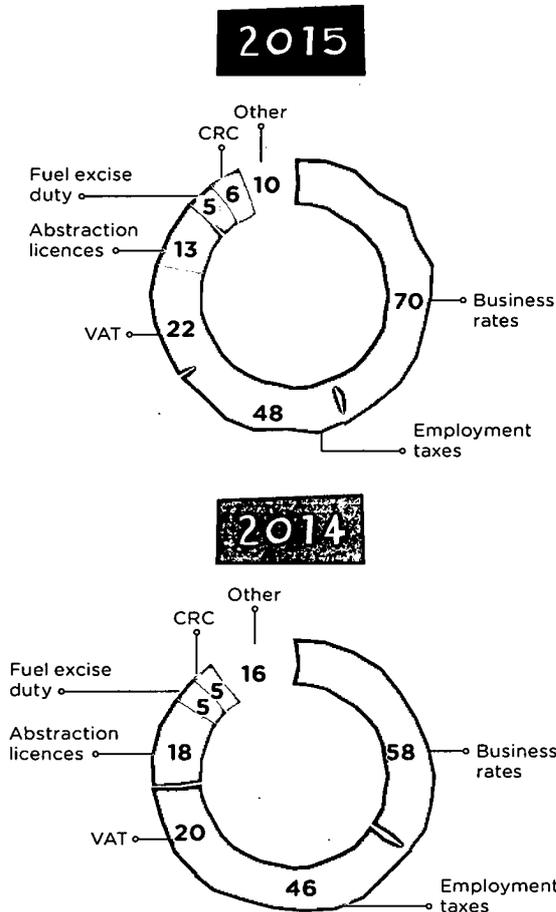
Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund that investment. We have one of the largest levels of private investment in the region, worth more than £2 billion over five years. This is central to underpinning economic recovery and growth of the regional economy.

The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Customers also benefit from the deferral as it helps to keep bills lower.

# PERFORMANCE REVIEW FAIR PROFITS

## AWS total tax contribution

Figures in £ million



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. Further, from a tax perspective, HMRC views AWS as a low-risk company, based on their ongoing review and assessment of our tax procedures.

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 2015 amounted to £174 million (2014: £167 million), of which £56 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 £70 million paid to local authorities. This is a direct cost to the Company and reduces profit before tax.
- Employment taxes of £34 million including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of £14 million were charged approximately 71 per cent to operating costs, reducing profit before tax, with 29 per cent capitalised to fixed assets.
- VAT of £22 million collected and paid to HMRC. VAT has no material impact on profit before tax.
- Abstraction licences and direct discharges of £13 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 £6 million was also charged to operating costs, reducing profit before tax.

GETTING IT RIGHT FOR YOU

OUR CULTURE IN ACTION CASE STUDY

## SUPPORTING CAMBRIDGE'S THRIVING ECONOMY

CAMBRIDGE IS WORLD FAMOUS AS A CENTRE OF EDUCATION AND RESEARCH. AS A RESULT IT IS ALSO ONE OF THE FASTEST GROWING CITIES IN THE UK, WITH ITS UNIVERSITIES, HI TECH, BIOTECH AND TOURISM INDUSTRIES DRAWING PEOPLE FROM ALL OVER THE GLOBE.

Workers in one of the giant new settlement tanks at Cambridge Water Recycling Centre.

Thousands of new homes are being built, new businesses are being started and the population grew by more than 12 per cent between 2001 and 2011 – the fifth highest rate in the UK.

Anglian Water supplies Cambridge with water recycling services and has a vital role to play in keeping the city and its economy moving. This year saw us complete a major expansion of the Cambridge Water Recycling Centre to keep pace with the city's rapid growth.

This £22 million investment in the city's infrastructure saw the installation of new settlement tanks and treatment lanes along with 3,000 metres of pipe and 30,000 metres of cable. Together, they will allow the site to serve a population of 195,000 – 55,000 more than before – processing up to 1,250 litres a second.

The project was designated as a Pathfinder for Anglian Water, allowing the teams involved to trial a number of innovations in its planning and building.

As a result the project was delivered ahead of time and under budget, despite a challenging 10-month construction deadline. It will now serve as a template for schemes during AMP6.

Anglian Water Operations and Maintenance Teams worked closely with supply chain partners throughout and a whole series of innovations, new technology and delivery methods led to savings in everything from time spent maintaining vital equipment to the amount of cabling on site.

We also succeeded in reducing embodied carbon in the project by more than half from a 2010 baseline. Avoiding the need to build new assets through rigorous challenge at the design stage, use

of lower carbon materials, off-site build and reduction in waste saw the team deliver a 64 per cent reduction in carbon.

All the information about the scheme was placed on an easily accessible database, while an online communications platform allowed teams to talk and instantly raise technical queries.

The use of 3D modelling in the planning stage also transformed the process, allowing all access, maintenance and lighting requirements to be built into the original designs. Knowing what the completed build would look like, staff were able to attend Safe to Operate workshops in advance of the project's completion.

### £22m

INVESTMENT IN THE CITY'S  
INFRASTRUCTURE

### OTHER INNOVATIONS INCLUDED:

Using ground stabilisation instead of conventional roads	Using Webholite, large pre-cast tanks, and extensive off-site construction to save on time and improve safety	Agreeing Operating Principles and expected behaviours with the integrated project team	Setting up a project board for resolving key issues
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# PROTECTING CANVEY IN PARTNERSHIP

AN INNOVATIVE APPROACH TO PARTNERSHIP FUNDING FOR FLOOD AND COASTAL EROSION WORK WAS TRIALLED SUCCESSFULLY ON CANVEY ISLAND.

Image: Secretary of State Liz Truss (left), presented with the Canvey Island Bid document by Christopher Hayton (Anglian Water), Rebecca Harris MP (Castle Point) and Cllr Colin Riley (Leader of Castle Point Borough Council).

In July 2014, a huge rainstorm flooded more than 1,000 properties on Canvey Island.

Since then, Anglian Water has worked with its partners, Essex County Council, Essex Highways, the Environment Agency and Castle Point Borough Council to reduce the risk of a repeat and provide long-term security for residents and businesses.

Through a request for help from others, £117,000 of partnership funding has been brought into the business to enable the development of an integrated flooding model. A further £25,000 has been secured to map the many unknown watercourses in private ownership on the island.

The partnership has also drawn up a long-term strategy for the island which, with support from the Government, would release another £24.5 million for a comprehensive schedule of works spanning the next 10 years.

A bid document to support this long-term strategy was presented to the Secretary of State for Environment, Food and Rural Affairs in March 2015.

## SOME OF THE PROJECTS THAT WOULD BE SUPPORTED BY THIS BID MONEY INCLUDE:

- Providing property level protection to 15,000 homes
- Increasing the storm water storage area on the island
- Improving drainage infrastructure at recognised pinch points, identified by the Integrated Urban Drainage Study
- Increasing the storage capacity of Canvey Lake
- Using new technology and increasing community resilience.

“I would like to congratulate Rebecca Harris MP, Anglian Water, Essex County Council, and Castle Point Borough Council for starting the process and handing the initial bid in to us. It will be looked at over the next few months and we look forward to receiving further information once the Integrated Urban Drainage Study is complete.”

Liz Truss, Secretary of State for Environment, Food and Rural Affairs

## WHAT'S BEEN DONE ALREADY?

The partnership has spent more than £1.7 million on a comprehensive maintenance, repair and cleaning scheme across the island's drainage network.

Anglian Water has spent £750,000 of that, jetting and surveying over 10,000 metres of sewers and completing more than 135 sewer repairs.

A website and two community newsletters have also been created to keep people informed.

## CANVEY IN NUMBERS:

**40,000** CANVEY POPULATION LIVING AT OR BELOW SEA LEVEL

## POTENTIAL COST OF A FUTURE FLOOD:

**£2.1bn**

IN DAMAGE TO RESIDENTIAL PROPERTY

**£274m**

PER YEAR IN LOST ECONOMIC OUTPUT

# REGULATORY KPIs AND NEW LOVE EVERY DROP GOALS 2014/15

- We have met our commitment, or we are on track to meet it
- Progress has been made but there is still more work to do

KPI	Status	Pages to find further detail
Service Incentive Mechanism (measures the level of customer concerns with our service and how well we deal with them).	● 85 (score)	P20
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).	● 192 MI/d	P27
Post-tax return on capital	4.6%	P68
Credit rating	Baa1	P68
Gearing	79.2%	P68
Interest cover	1.86	P68
Serviceability water non-infrastructure (assesses the reliability of service and asset performance for our water non-infrastructure (treatment works etc)).	● Stable	P51
Serviceability water infrastructure (assesses the reliability of service and asset performance for our water infrastructure (pipes etc)).	● Stable	P51
Serviceability sewerage non-infrastructure (assesses the reliability of service and asset performance for our sewerage non-infrastructure (treatment works, pumping stations, etc)).	● Stable	P51
Serviceability sewerage infrastructure (assesses the reliability of service and asset performance for our sewerage infrastructure (sewers etc)).	● Stable	P51
Sewer flooding (measures the number of internal sewer floodings in the year of properties that have also flooded in the last 10 years).	● 134	P51
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).	● 87.3 (Cat 1-3 incidents /10,000km of sewer)	P51
Serious pollution incidents (sewerage) (measures the number of instances of internal sewer flooding for properties that have flooded in the last 10 years).	● 1.8 (Cat 1-2 incidents /10,000km of sewer)	P51
Discharge permit compliance (measures the performance of our assets to treat and dispose of sewage in line with the conditions imposed on the treatment works).	● 98.6%	P51
Satisfactory disposal of sludge (a measure of our compliance with stringent legal obligations).	● 100%	P37
Water supply interruptions (measures time lost due to water supply interruptions for three hours or longer, per property served).	● 00:19 (HH:MM/prop)	P49
Net greenhouse gas (GHG) emissions (measures our annual operational GHG emissions).	● 447 (ktCO <sub>2</sub> e)	P38
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)	P32

These are the new Love Every Drop Goals, the Directors that own them and the proposed top-line measures. Commitments for each goal are being developed and will be published and tracked on our website.

Goals	Director	Goal top-line measure
No accidents	Peter Simpson	Lost time rate
No incidents	Paul Valleley	No of category 4 and 5 incidents (DWI)
No pollutions	Paul Gibbs	No of unconsented pollutions (EA Cat 1-3)
Frontier performer in the UK	Jean Spencer	Benchmarking against peer group
100% of our customers very satisfied with our service	Martyn Oakley	SIM Qual score
Employer of choice	Kate Kelly	Employee Survey results for 'I would gladly refer a friend or family member to work at Anglian Water'
Pioneer responsible water stewardship	Paul Valleley	Survey of key stakeholders
Zero waste, get it right first time, every time	Chris Newsome	% diverted from landfill business efficiency metric
Lead and champion the effective management of climate change and growth	Jean Spencer	Adaptation Report evaluation score
Exceed a 7% reduction in real terms in gross operational carbon by 2020 from a 2015 baseline	Chris Newsome	% reduction
Deliver a 70% reduction in capital (embodied) carbon by 2030 from a 2010 baseline	Chris Newsome	% reduction (60% target for 2020)
Make a positive difference to the communities we serve	Mark Pendlington	Community perception survey (ODI)

# OUR KEY RISKS

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 to identify new risks in a timely manner and ensure swift mitigation can be implemented.

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, which outlines the principal risks to the business, 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 seek assurances that 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. It is therefore vital 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 Drainage Strategy identified investment at 35 sites for AMP6 including investment to protect us

against further flood risk. This is in addition to the money we invested at 20 water treatment works in this AMP period. At the same time, work is now underway to further reduce leakage by some 20 MI/d to 172 MI/d by the end of AMP6.

### OUTCOMES AFFECTED BY THIS RISK:

## FINANCING OUR BUSINESS

### Description

We are funding a totex programme of £5 billion in AMP6 and have a gross debt of £6.4 billion to manage and service. It is critical that we have robust financing and liquidity management arrangements in place.

### Mitigation

Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme.

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 79.2 per cent of our regulatory capital value as at 31 March 2015. 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 banking facilities and having a diverse debt portfolio in terms of source and maturity.

### OUTCOMES AFFECTED BY THIS RISK:

## REGIONAL GROWTH

### Description

Managing the forecast rise in population in our region is one of our most significant long-term challenges. As economic conditions in the UK improve, the number of new developments is increasing and meeting the growth in demand for new services remains a key area of focus for the business.

### 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:

## WATER SECTOR REFORM AND OTHER LEGISLATION

### Description

The Water Act 2014 will enable all business customers to choose their retail supplier from April 2017. The Act also makes provision for further upstream reforms. In order to deliver an effective retail market, Defra and Ofwat have created the Open Water Programme to deliver this work by 2017.

To facilitate the new retail market and enable Ofwat to set more effective incentives for different parts of the value chain, Ofwat has also set separate price controls for retail and wholesale activities from 1 April 2015.

In addition, we also need to keep abreast of all other new legislation passed by Parliament and ensure we comply with existing laws.

### Mitigation

We have been extensively and actively involved at all levels of the Open Water Programme, to support the design and development of the retail market. We have also been instrumental in creating Market Operator Services Ltd (MOSL), a private company which will procure the central IT systems for the new retail market.

The creation of a Wholesale Service Centre (WSC) within our Wholesale Services

business unit will provide a single point of contact for all non-household retailers into Anglian Water Services. The WSC will ensure that all retailers are treated fairly and equally and make sure we are compliant with the new market codes. We have structured our activities so that we comply with Ofwat's four separate price controls.

We carefully manage compliance with current legislation (e.g. Competition Act 1998) and continue to monitor new legislation to ensure that we are fully compliant. Where possible, we seek to influence forthcoming legislation, including the debates on upstream and abstraction reform.

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 operate a leading debt management system and now share credit reference data with Experian, a leading credit reference agency. This sharing of data allows us to better target our debt recovery efforts, encourages prompt payment and improves credit scores for those customers with little credit history.

OUTCOMES AFFECTED BY THIS RISK:

## OUR KEY RISKS

### 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. 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. During AMP5 we progressively secured 100 per cent of our wholesale electricity costs and we have already purchased a significant 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:

### 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. As we move into AMP6 new Regulatory Incentives begin, such as Outcome Delivery Incentives, which will require us to adapt our strategies.

We have delivered significant cost efficiencies across our capital and operating cost base during AMP5, and will continue to drive out costs in AMP6 while refocusing expenditure to adapt to regulatory changes.

#### Mitigation

Examples of efficiency projects we have implemented during 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 and energy optimisation of our treatment and distribution systems
- 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
- Improving the operability of what we build by having clear and agreed deliverables.

Our efficiency in delivery has been essential to mitigate the impact of additional costs that were not included in prices when the AMP5 determination was made; for example the Carbon Reduction Commitment and the transfer of private sewers, totalling more than £10 million per annum. Our capital delivery efficiency has enabled us to further invest in the resilience of our service and the serviceability of our assets, and allowed us to further invest in reducing leakage, which is a key part of our strategy to manage the impact of growth and climate change on our region.

Being successful in AMP6 will require Innovation, Collaboration and Transformation to continue delivering cost efficiencies, while delivering strong performance on our Outcome Delivery Incentives.

#### OUTCOMES AFFECTED BY THIS RISK:

## POLLUTIONS

### Description

Leaks, spills and escapes from our network, combined with the overall serviceability of the infrastructure, 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 £5.8 million in the last financial year on 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. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock

- Continuing 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
- Reducing blockages, which 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 52 per cent fewer blockages in the areas targeted so far, with a 30 per cent reduction across the Anglian Water region
- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

OUTCOMES AFFECTED BY THIS RISK:

## OUTCOME DELIVERY INCENTIVES

### Description

In the future, our performance will be linked to millions of pounds in either penalty or reward under the new system of Outcome Delivery Incentives (ODIs). This represents a significant financial risk to the business if we fail to meet the required standard in a number of areas.

Some of the largest potential penalties are attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies. From April 2015 the way customers are surveyed has changed, making it harder to score highly.

At the same time we will also be judged by our customers, who compare our service with that of the top UK brands. They expect us to be as good, if not better. So there is also a reputational risk in failing to keep pace with growing customer expectations.

### Mitigation

We have a detailed programme of investment and improvements to processes, assets and infrastructure. We are moving to ever more proactive, targeted and efficient ways of working, and better, smarter use of systems and data. We are increasing collaboration across the business, with key

stakeholders and with customers. We aim to continuously monitor and improve our performance to achieve and exceed the measures set.

With SIM, we are investing in new IT systems, social media, training and processes to ensure customers only need to contact us once to resolve a problem, and that we respond ever more quickly to meet their needs.

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

## CYBER SECURITY AND DATA PROTECTION

### Description

Cyber risk is a high priority for the business; over the last year the volume and complexity of threats targeting companies and our sector has increased and we have responded accordingly to protect our data and information.

We hold personal data on all of our customers and employees, which is used for a wide variety of purposes, and we take our responsibilities for protecting that data very seriously, working with and taking guidance from the Information Commissioner's Office (ICO).

### Mitigation

We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external experts who assess both the suitability and effectiveness of these controls, this provides assurance that we have the right measures in place to counter the threats we face.

We have a clear governance strategy to ensure compliance with the Data Protection Act. Two Directors jointly chair our Information Governance Forum, which effectively carries out the role of a Senior Information Risk Officer (SIRO). Each Business Unit has a representative on the Forum with responsibility for ensuring their Business Unit complies with the Act. Training is mandatory for all employees who come into contact with personal data, whether customer or employee, and enhanced training has been provided for Forum representatives.

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

# FINANCIAL PERFORMANCE

Anglian Water Services Limited is part of the Anglian Water Group. The Company operates on an arm's-length basis from other companies within the Group. The financial results for the year ended March 2015 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 International Financial Reporting Standards (IFRS) for the first time this year, having previously applied generally accepted accounting practice in the UK (UK GAAP). Reconciliations from UK GAAP to IFRS for the income statement and balance sheet in respect of prior years are presented on pages 168 to 175 of the financial statements. 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 underlying financial results are summarised in the table<sup>1</sup> below:

	2015 Total £m	2014 Total £m
<b>Revenue</b>	<b>1,244.3</b>	1,214.0
Other operating income	<b>12.9</b>	12.3
Underlying operating costs <sup>1</sup>	<b>(523.9)</b>	(485.4)
Depreciation and amortisation	<b>(280.7)</b>	(272.0)
<b>Underlying operating profit</b>	<b>452.6</b>	468.9
Finance income (adjusted) <sup>2</sup>	<b>4.2</b>	4.9
Finance costs <sup>1</sup>	<b>(274.8)</b>	(305.9)
<b>Underlying profit before tax</b>	<b>182.0</b>	167.9

The table below sets out the reconciliation between the statutory income statement (on page 123) and the underlying financial performance as shown above.

	2015 Total £m	2014 Total £m
Profit before tax on an underlying basis	<b>182.0</b>	167.9
Operating costs - fair value losses on energy hedges	<b>(0.8)</b>	(5.4)
Finance costs - fair value (losses)/gains on derivative financial instruments	<b>(212.8)</b>	86.4
Finance income - intra-group interest receivable	<b>192.3</b>	192.3
<b>Profit before tax as reported in the statutory income statement</b>	<b>160.7</b>	441.2

<sup>1</sup> In order to show performance on an underlying basis the fair value gains and losses on energy hedges and financial derivatives have been excluded from the table.

<sup>2</sup> In order to show the position of the Anglian Water Services Financing (AWSF) Group (as defined in the ownership structure on page 14), finance income is shown excluding internal interest receivable by the Group from Anglian Water Services Holdings Ltd of £192.3 million (2014: £192.3 million).

Revenue for the year was £1,244.3 million, up 2.5 per cent on last year. This reflects an inflationary price increase of 2.6 per cent offset by a small reduction in demand due to the wet spring of 2014 and a relatively cool summer, by comparison to the prior year. Our decision not to pass on the full regulatory price increase meant that customer bills were reduced overall by around £10 million for the year.

Other operating income comprises primarily the amortisation of developer contributions received in respect of new housing developments, and is up modestly on last year in line with the increase in growth.

Underlying operating costs for the year increased by £38.5 million (7.9 per cent) to £523.9 million (2014: £485.4 million). The increase is explained in the table below.

<b>Increases/(decreases) in operating costs (before depreciation and amortisation)</b>	<b>£m</b>
One-off savings in 2014 of a non-recurring nature (principally rate rebates of £10 million, plus power credits and land sales of £5.5 million)	15.5
General inflationary increases	13.4
Increase in minor repair activities to improve waste water serviceability and water leakage (this would have been classified as capital expenditure under UK GAAP)	10.3
Increase in rates	4.5
Operating cost of newly commissioned plant	2.9
Increase in tankering costs due to extreme wet weather events	2.9
Bad debt charge	0.7
Net power increase - principally rate increases, including a £1.4 million rise in the carbon emissions levy, partially offset by non-recurring credits	0.6
Other miscellaneous increases	2.0
Non-recurring cash rebate in respect of prior year contributions to the EA's environmental improvement scheme	(5.2)
Cost and efficiency savings	(9.1)
<b>Net increase in operating costs</b>	<b>38.5</b>

The bad debt charge for the year was £33.1 million, which is up modestly on last year's charge of £32.4 million. Expressed as a percentage of revenue the bad debt charge for 2015 was 2.66 per cent compared with 2.67 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, and more efficient asset maintenance programmes.

Depreciation and amortisation is up 3.2 per cent compared with last year, consistent with a higher charge for depreciation on newly commissioned assets.

Underlying operating profit has reduced by 3.5 per cent to £452.6 million, reflecting the increase in operating costs and depreciation noted above, which, following the decision not to implement the full rise in bills, was only partially offset by the increase in revenue.

Net finance costs, excluding the intra-group interest receivable of £192.3 million (2014: £192.3 million) and before fair value gains and losses on derivative financial instruments, decreased by 10.1 per cent from £301.0 million in 2014 to £270.6 million in 2015. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, and savings in coupon interest payable due to new debt being issued at lower rates than debt repaid.

There was a non-cash fair value loss of £212.8 million on derivative financial instruments (excluding energy derivatives) in 2015, compared to a fair value gain of £86.4 million in 2014, due to movements in market expectations of long-term interest, inflation and exchange rates. The fair value loss has no commercial or economic impact on the Group's operations or customers, and should be looked through to properly assess the underlying performance of the business. The main factor for the gain in 2014 becoming a loss in 2015 was the movement in the yield curve for forward interest rates which fell by 90 basis points during the year causing fair value losses, compared with an increase of 70 basis points in 2014, which resulted in fair value gains. During the year, forward inflation rates decreased by 40 basis points (2014: a decrease of 30 basis points) and this partially mitigated the impact of the fall in forward interest rates on our inflation swap fair values.

Profit before tax for the year on an underlying basis (i.e. excluding fair value losses/gains on derivative financial instruments and the intra-group interest receivable) was £182.0 million, up 8.4 per cent compared with the prior year. This reflects the reduction in net finance costs (excluding fair value losses/gains on derivatives) due principally to lower RPI, partially offset by the reduced operating profit as explained above.

## FINANCIAL PERFORMANCE

### Taxation

#### Current tax

The current tax charge for the year was £12.6 million (2014: £22.4 million). This reflects a reduction in the corporation tax rate from 23 per cent to 21 per cent for the year and an increased prior year adjustment due to reaching agreement with HMRC over the treatment of certain capital expenditure at our treatment works. This is partially offset by an increase in profits (before fair value movements) and a lower level of capital allowances claimed on the substantial capital investment we make to improve the service to customers.

#### Deferred tax

The deferred tax credit has reduced from £156.3 million to £46.9 million. The prior year included the impact of the reduction in future tax rates used to calculate deferred tax from 23 per cent to 20 per cent, which gave rise to a credit of £188 million under IFRS. Without this credit there would have been a charge in the previous year of £31.7 million.

The main reasons for the deferred tax credit in the current year are the fair value losses on derivatives, together with an adjustment for prior years arising from the transfer of non-qualifying assets which previously qualified for Industrial Building Allowances to the Longlife Asset pool.

Total tax paid or collected in the year to 31 March 2015, other than corporation tax, amounted to £174 million (2014: £167 million) of which £56 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 final year of AMP5 investment programme

AMP5 gross capital expenditure<sup>1</sup> in the appointed business for the year was £438.7 million (£217.1 million on capital maintenance, £221.6 million on capital enhancement), compared to £424.3 million in 2014. This includes £57.0 million of AMP6 transition programme expenditure referred to below.

Significant projects delivered during this year include the new £45 million Hall water treatment works in Lincolnshire to meet the demands of the growing population in the area, a £7 million scheme to support growth in Cambridgeshire and an £8 million scheme for Bury St Edmunds.

Over the five years of AMP5 we invested c£2.1 billion (net of efficiencies) in our capital programme and delivered our original business plan in terms of regulatory outputs. We delivered significant cost efficiencies against our Final Determination over AMP5, enabling us to reinvest an additional £235 million to further support resilience and the protection of customer supply.

We have delivered an impressive 54 per cent reduction in embodied carbon in the schemes completed this year compared to our 2010 baseline. As embodied carbon is a natural 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. Our supply chain's commitment to supporting us in this has been key to the delivery of our carbon reduction. By helping us to challenge traditional construction methods and solutions, alongside enabling our use of innovative techniques, it has also driven us to set even more stretching targets for the next AMP period. For example, we are now targeting 90 per cent of our infrastructure renewals through 'no dig' techniques, such as relining or directional drilling, having achieved 80 per cent at the end of AMP5.

Alongside our AMP5 programme, we also delivered a £57.0 million AMP6 Transition Programme. This early AMP6 spend has enabled us to mitigate the loss of efficiency resulting from the dip in activity from one AMP period to another, and reduces pressure on our supply chain caused by the stop-start approach experienced in previous AMP transition periods. By starting design work on our AMP6 schemes early, we enable construction through the summer months and ensure we deliver our early AMP6 outputs both efficiently and in line with our regulatory and customer commitments.

An additional £1.2 million was spent on the non-appointed business, half of which related to completion work for two wind turbines installed at the end of the previous year as part of our renewable energy commitment, and the remainder for various system and office developments. Self-generation from all our renewable sources for 2014/15 was 100GWh (14.1 per cent of total consumption), compared to 64.1GWh in 2013/14 (8.9 per cent).

<sup>1</sup> Stated on a UK GAAP basis to be consistent with Final Determination against which our programme delivery is measured. On an IFRS basis and excluding capitalised interest, gross capex for the appointed business was £406.7 million (2014: £410.2 million).

## Financial needs and resources

In the year to 31 March 2015 Anglian Water raised £185.0 million of new funds and made debt repayments of £69.7 million. The £185.0 million of new debt raised during the year comprised two tranches (£125.0 million and £60.0 million) of European Investment Bank index-linked funding. Debt repayments comprised: £8.9 million of finance leases and the remaining £60.8 million of the £100.0 million 6.75 per cent Class-B 2024 fixed rate bond following a tender offer for £39.2 million in March 2013.

At 31 March 2015 Anglian Water had net borrowings of £6,376.3 million (£5,649.2 million excluding derivatives), an increase of £395.5 million (£136.7 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,406.7 million, derivative financial instruments of £727.1 million and cash and deposits of £757.5 million. The increased net borrowings reflect an increase of £206.8 million in loans and associated costs, primarily relating to new debt raised and the impact of inflation on index-linked debt; an increase in the derivatives valuation of £258.8 million; and an increase of £70.1 million in cash and deposits (which causes net debt to decrease).

The business generated a net cash inflow from operating activities of £708.6 million in the year ended 31 March 2015 (2014: £691.9 million).

## Distributions

Dividends paid out of the Group for the year ended 31 March 2015 were £180.2 million (2014: £202.1 million), which equates to £18.02 per share (2014: £20.21 per share). In addition an intra-group dividend of £192.3 million (2014: £192.3 million) was paid and committed to Anglian Water Services Holdings Limited (via AWS Overseas Holdings Ltd) in order for it to service the interest payable to the Company on the intercompany loan of £1,602.6 million. This dividend is retained within the Anglian Water Services Financing (AWSF) Group. In total, dividends of £372.5 million (2014: £394.4 million) have been paid and committed at £37.25 per share (2014: £39.44 per share).

The Directors have proposed a final dividend for the year ended 31 March 2015 of £10.0 per share, which is a total of £100.0 million. This distribution has not been accounted for within the 2014/15 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 new Asset Management Plan period of 31 March 2020) 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 investor while ensuring the liquidity requirements of the business are 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 Anglian Water and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraints. This policy is consistent with condition F of the licence.

## Liquidity

The Company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2015 the Company held cash, deposits and current asset investments of £757.5 million (2014: £687.4 million). The increase in cash held compared to the prior year reflected the cash generated by the business net of distributions and debt repayments during the year. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 17 on pages 145 to 146 of the accounts.

The Company has access to £500.0 million of facilities (2014: £420.0 million), which were undrawn at 31 March 2015, to finance capital expenditure and working capital requirements. In addition, the Company has access to a further £375.0 million of liquidity facilities (2014: £375.0 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.

## FINANCIAL PERFORMANCE

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, 56.5 per cent (2014: 54.0 per cent) of the Company's borrowings were at rates indexed to RPI, 34.8 per cent (2014: 37.0 per cent) were at fixed rates and 8.7 per cent (2014: 9.0 per cent) were at floating rates.

### Pension funding

The IAS 19 pension deficit (before deferred tax) at 31 March 2015 stood at £38.4 million for all schemes, compared to a deficit of £60.7 million at 31 March 2014. This decrease in deficit reflects our deficit reduction payments in the year of £23.3 million, combined with the beneficial impact of low inflation rates and rising stock market values, partly offset by the adverse impact of lower corporate bond rates, which are used to discount the scheme liabilities.

### 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 180 to 205. 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 page 59. 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 2014/15 this KPI was 4.6 per cent compared with 4.7 per cent in the prior year. The decrease is largely due to the increase in average RCV over the year.

**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 the prior year and in line with expectations. In February 2015, following the publication of the Final Determination for Anglian Water, Moody's affirmed the current ratings for Anglian Water Services Financing Plc and Anglian Water (Osprey) Financing Plc (a company owned by Osprey Acquisitions Limited) with a stable outlook. In March 2015 Fitch affirmed its current ratings for Anglian Water Services Financing Plc, with a negative outlook, and Anglian Water (Osprey) Financing Plc, with a stable outlook.

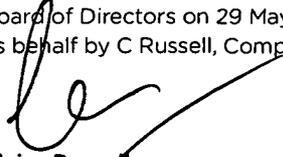
**Gearing** - gearing is a measure of the Company debts as a percentage of the Company's regulatory capital values. Our gearing level of 79.2 per cent at 31 March 2015 is well within the limit we have agreed with our lenders.

**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 1.86, which is in line with our lenders' expectations.

### How we have performed

	2014/15	2013/14
Post-tax return on capital	4.6%	4.7%
Credit rating	Baa1	Baa1
Gearing	79.2%	79.6%
Interest cover	1.86	1.64

This Strategic Report was approved by the Board of Directors on 29 May 2015 and signed on its behalf by C Russell, Company Secretary.

  
**Claire Russell**  
Company Secretary  
29 May 2015

# GOVERNANCE

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The Company and the Group are committed to high standards of corporate governance. In December 2013 we published the Anglian Water Services 2014 Corporate Governance Code (2014 Code) in response to the governance proposals put forward by Ofwat. Our 2014 Code came into effect on 1 April 2014.

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# BOARD OF DIRECTORS

## **Stephen Billingham, Chairman**

Chairman of the Nomination Committee  
Member of the Audit Committee  
Member of the Remuneration Committee  
Stephen Billingham was appointed to the Board in November 2014 and became Chairman on 1 April 2015.

Stephen is currently Executive Chairman of Punch Taverns plc, the UK's second largest pub company. Stephen has been Group Finance Director (CFO) of British Energy Group plc and Group Finance Director (CFO) of WS Atkins plc. He was previously Group Treasurer of BICC plc (now Balfour Beatty plc) and Severn Trent plc.

Stephen is also a Government appointed Non-Executive Director and Chairman of the Audit Committee of Urenco Ltd.

## **Executive Directors**

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

Scott Longhurst was appointed Group Finance Director of AWG in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's non-regulated businesses in addition to his financial responsibilities. Prior to joining AWG, he spent most of his career with Shell and TXU Corporation. Scott moved from Shell in 2000 to TXU and, from early 2001, was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions - a non-regulated utility services company. In February 2004, he was appointed Group Controller and Chief Accounting Officer of TXU Corporation. Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell encompassing corporate, operating company and joint venture activities across Europe, the Far East and Middle East. Scott is a Fellow of the Institute of Chartered Accountants in England and Wales, a founding member of HRH The Prince of Wales Accounting for Sustainability CFO Leadership Network and is also a Non-Executive Director and chairs the Audit Committee 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 and managing the asset base. Chris is Chairman of

@one Alliance, Chairman of UK Water Industry Research Ltd and a Director of the Institute of Asset Management. He is also a member of the Government's Green Construction Board and is Chairman of the Infrastructure Group.

Chris is a Fellow of the Institution of Civil Engineers and a member of the Chartered Institute of Water and Environmental Management and of the Institute of Asset Management.

### **Peter Simpson, Chief Executive Officer**

Peter Simpson was appointed to the Board of Anglian Water Services Limited in November 2004. He was appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013. He previously held the position of Chief Operating Officer, responsible for the day-to-day functioning of Anglian Water, with a scope covering operations, asset management and customer services. Prior to that, he held positions within the international division of AWG, including Regional Director for Europe and South America, based in the Czech Republic, and Senior Vice President of Operations, based in the USA. Peter is a director of Open Water Market Limited and Market Operator Services Limited, and served as Chairman of Water UK from April 2012 until September 2013. He is currently Vice-President of the Institute of Water and will be President from July 2015. Peter is a Chartered Water and Environmental Manager, a Chartered Environmentalist, and a Chartered Health and Safety Practitioner. He also holds an MBA from Warwick Business School.

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

Jean Spencer was appointed as Regulation Director in May 2004. Prior to joining Anglian Water, she held a number of positions with Yorkshire Water and Kelda. Jean is a Trustee on the Council of the British Trust for Ornithology. She is a qualified Chartered Accountant by training.

## **Independent Non-Executive Directors**

### **Polly Courtice, LVO**

Member of the Nomination Committee  
Polly Courtice was appointed to the Board in April 2015. Polly is Director of the University of Cambridge Institute for Sustainability Leadership. She is also Founder Director of The Prince of Wales's Business and Sustainability Programme. Polly is a member of the University of Cambridge's Board of Executive and Professional Education, the University's Environmental Policy Review Committee, and the Northwest Cambridge Development Quality Panel. She is a Director of Jupiter Green Investment Trust, and

is on the environmental/sustainability advisory boards for AstraZeneca plc, Freshfields Bruckhaus Deringer LLP, Lloyds Banking Group plc and Nespresso. In 2008 Polly was made a Lieutenant of the Victorian Order (LVO).

#### **Christopher Garnett, OBE**

Member of the Audit Committee  
Member of the Nomination Committee  
Member of the Remuneration Committee  
Christopher Garnett was appointed to the Board in December 2006, and became Senior Independent Non-Executive Director in January 2015.

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 Board Member of the Olympic Delivery Authority in November 2014 and 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.

#### **Steve Good**

Member of the Audit Committee  
Member of the Nomination Committee  
Member of the Remuneration Committee  
Steve Good was appointed to the Board in April 2015. Steve is a Non-Executive Director of Elementis plc and Zotefoams plc. Steve was Chief Executive of Low & Bonar PLC between September 2009 and September 2014. Prior to that role, he was Managing Director of its Technical Textiles division between 2006 and 2009, Director of New Business between 2005 and 2006, and Managing Director of its Plastics Division between 2004 and 2005. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is a Chartered Accountant.

#### **John Hirst, CBE**

Chairman of the Audit Committee  
Member of the Remuneration Committee  
John Hirst was appointed to the Board and as Chairman of the Audit Committee in April 2015. John is a Non-Executive Director of Ultra Electronics Holdings plc, Marsh UK plc and Non-Executive Chairman of Hammerson plc Pension Fund.

John was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc between 1998 and 2005. He joined Imperial Chemical Industries plc in 1979 where he held a number of roles over a 19-year period, including Group Treasurer and Chief Executive Officer, ICI Performance Chemicals. He also served as a Non-Executive Director and Chairman of the Audit Committee of Hammerson plc between 2004 and 2014. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

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

Robert Napier was appointed to the Board in February 2002. He served as Senior Independent Director from November 2013 to January 2015, when he was appointed as Chairman following Sir Adrian Montague's resignation and while the recruitment process for his successor was completed. Robert previously 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, the Royal College of Surgeons of England, Lafarge UK Pension Fund and 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, he is the Senior Independent Non-Executive Director for Scottco Holdings and, until recently, was the Lead Non-Executive Director of the Crown Commercial Service, the UK's largest public sector procurement organisation.

## BOARD OF DIRECTORS

### **Paul Whittaker**

Member of the Nomination Committee  
Chairman of the Remuneration Committee  
Paul Whittaker was appointed to the Board in October 2013 and became Chairman of the Remuneration Committee in January 2015. Paul Whittaker became Director, UK Regulation at National Grid plc in April 2006. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the Boards of the two main UK operating subsidiaries – National Grid Electricity Transmission plc and National Grid Gas plc. Prior to that he was Group Head of Strategy. He retired from National Grid in March 2015.

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 that 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.

### **Non-Executive Directors**

#### **Andrew Cox**

Member of the Nomination Committee  
Member of the Remuneration Committee  
Andrew Cox was appointed as a Non-Executive Director in April 2014. Andrew is a director within 3i's infrastructure investment business, responsible for the origination, structuring and asset management of infrastructure investments. Andrew 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. Andrew has been an alternate Non-Executive Director of AWG since May 2012.

#### **James Bryce**

Member of the Nomination Committee  
Member of the Remuneration Committee  
James Bryce was appointed as a Non-Executive Director in December 2014. James works for CPPIB's London office where he is a Senior Principal within CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (the private equity arm of RBS) where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBS, James worked at JP

Morgan Capital and Hambros Bank. James holds an MA from Oxford University. He was appointed an alternate Non-Executive Director of AWG on 1 December 2014.

#### **Niall Mills**

Member of the Nomination Committee  
Member of the Remuneration Committee  
Niall Mills was appointed as a Non-Executive Director in 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 the Homes and Communities Agency, 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**

Member of the Nomination Committee  
Member of the Remuneration Committee  
Christian Seymour was appointed as a Non-Executive Director in April 2014. Christian is responsible for the business expansion in Europe and oversight of IFM Investor's existing European asset portfolio. Christian has been with IFM Investors for over 11 years and for the past nine years has been based in London where he established the European operation.

Christian has led, or held oversight for, a number of IFM Investor's deals, including the acquisition of the Manchester Airport Group and the take private of Anglian Water. He is a director on 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. 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. In December 2013 we published the Anglian Water Services 2014 Corporate Governance Code (2014 Code) in response to the governance proposals put forward by Ofwat. Our 2014 Code came into effect on 1 April 2014, with the aim of being fully compliant by 1 April 2015. The areas where the 2014 Code is not followed are explained below.

In September 2014, the FRC published a revised version of the UK Corporate Governance Code (UK Code). We have updated our 2014 Code to reflect certain changes in the UK Code (relating primarily to Remuneration Policy and Risk Management and Internal Control). The updated Code came into effect on 1 April 2015 and we will report our compliance with the revised 2015 Code in our Annual Report and Accounts 2016.

A copy of both our 2014 Code and the revised 2015 Code can be found on the Company's website.

## 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 wastewater services
- Investing to maintain services for future customers
- Minimising the impact of disruptive events, in particular increasingly severe weather events
- Ensuring that customer bills balance fairness, affordability and value for money
- Supporting a flourishing environment
- Leading by example on reducing emissions and conserving natural resources
- Working responsibly with and for the community in the region served by the Company
- Ensuring that the business is financially responsible, efficient and earns appropriate returns
- Providing health and safety leadership and ensuring Board decisions reflect the goal of no accidents and no harm to people.

## CORPORATE GOVERNANCE REPORT

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, which include:

- Material changes to the Company's strategy
- Material changes to the annual operating and capital expenditure budget
- Extension of the Company's activities into new business or geographic areas
- Any decision to cease to operate all or any material part of the Company's business
- Material changes relating to the Company's capital structure including reduction of capital, share issues and share buy backs
- Approval of dividend policy
- Approval of accounting and treasury policy and practices
- Approval of procurement strategy for award of new contracts by the Company where the contract value (over the life of the contract) is expected to be in excess of £30 million
- Approving remuneration policy
- Approving the total pay received by each Director
- Approving the appointment of the Group's auditors
- Agreeing to refer any matter (including any proposed licence modification or Final Determination) to the CMA.

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 at the date of signing the financial statements were as follows:

#### Stephen Billingham

(appointed as an Independent Non-Executive Director on 26 November 2014 and appointed as Non-Executive Chairman on 1 April 2015)

#### Peter Simpson

(Chief Executive Officer)

#### Scott Longhurst

(Managing Director, Finance and Non-Regulated Business)

#### Chris Newsome

(Director of Asset Management)

#### Jean Spencer

(Director of Regulation)

#### Polly Courtice

(Independent Non-Executive Director, appointed 1 April 2015)

#### Christopher Garnett

(Senior Independent Non-Executive Director)

#### Steve Good

(Independent Non-Executive Director, appointed 1 April 2015)

#### John Hirst

(Independent Non-Executive Director, appointed 1 April 2015)

#### Robert Napier

(Independent Non-Executive Director)

#### John Watkinson

(Independent Non-Executive Director)

#### Paul Whittaker

(Independent Non-Executive Director)

#### James Bryce

(Non-Executive Director, appointed 1 December 2014)

#### Andrew Cox

(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)

The following Directors resigned from the Board during the year:

#### Sir Adrian Montague

(Chairman, Non-Executive, resigned 22 January 2015)

#### Andreas Köttering

(Non-Executive Director, resigned 1 December 2014)

Robert Napier held the position of Chairman between 22 January 2015 and 31 March 2015.

At 31 March 2015, in addition to the Chairman Robert Napier, there were four Executive Directors, four Independent Non-Executive Directors and four Non-Executive Directors. As at the date of this Report, in addition to the Independent Chairman there were four Executive Directors, seven Independent Non-Executive

Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

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. 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 70.

The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Company's strategy and performance. Adrian Montague, who served as Chairman until his resignation on 22 January 2015, Robert Napier, who was Chairman from 22 January to 31 March 2015 and Stephen Billingham who was appointed as Chairman on 1 April 2015 were all independent on appointment to the Board. Stephen Billingham is independent of investors and management and is not linked in any way to shareholders. The independence of the three longest serving Independent Non-Executive Directors was the subject of an externally facilitated review, which was considered by the Board at its meeting on 1 April 2015. Having considered the output from this rigorous review (which was conducted by Constal as part of the Board evaluation process) the Board concluded that 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 2014 Code.

It is anticipated that Robert Napier, John Watkinson and Christopher Garnett (who will have served as a Director for nine years in December 2015) will resign from the Board during the 2015/16 financial year to ensure an orderly handover to Polly Courtice, Steve Good and John Hirst. The Independent Non-Executive Directors provide constructive challenge and bring independence to the Board and its decision-making process. In particular, the Independent Non-Executive Directors are responsible for:

- Bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management
- Scrutinising and challenging performance of the Company's business
- Assessing risk and the integrity of the financial information and controls.

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

On 21 January 2015 Christopher Garnett replaced Robert Napier as the Senior Independent Non-Executive Director. The role of the Senior Independent Non-Executive Director is to provide a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. The Senior Independent Non-Executive Director is available to shareholders of the Company if they have concerns that contact through the normal channels of Chairman, Chief Executive or other Executive Directors, has failed to resolve, or for which such contact is inappropriate.

All Independent Non-Executive Directors have letters of appointment rather than service contracts, which include the expected time commitment of the appointment. 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 six to eight days per month. His other significant commitments are disclosed in his biography on page 70. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

The Chief Executive Officer is 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.

## CORPORATE GOVERNANCE REPORT

Recommendations for appointments to the Board are made by the Nomination Committee. 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 2015 there were 21 scheduled meetings of the Board. In addition, the Board held three scheduled meetings between 31 March 2015 and the date of signature of this 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.

### Board committees

The Board has an Audit Committee, a Remuneration Committee and a Nomination Committee. Final decisions on issues dealt with by each of these Committees are made by the Board.

### 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 80 to 83.

### 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 84 to 85.

### 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 Report on pages 86 to 117.

### Board and Committee attendance

The Board held 21 scheduled meetings during the year. The attendance by individual Directors at scheduled meetings of the Board and other Committees during the year ended 31 March 2015 is shown in the table below:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham	7/7	2/2	5/8	2/2
James Bryce	3/5	-	7/8	1/2
Andrew Cox	21/21	-	12/12	7/7
Christopher Garnett	20/21	3/3	12/12	7/7
Scott Longhurst*	21/21	3/3	5/12	5/7
Niall Mills	21/21	-	11/12	7/7
Robert Napier	21/21	3/3	11/12	7/7
Chris Newsome	21/21	-	-	-
Christian Seymour	18/21	-	8/12	6/7
Peter Simpson*	21/21	3/3	10/12	6/7
Jean Spencer	21/21	-	-	-
John Watkinson	19/21	3/3	12/12	7/7
Paul Whittaker	21/21	-	11/12	6/7

Former Directors who served during the year:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Sir Adrian Montague*	18/18	2/2	6/6	5/5
Andreas Köttering	15/16	-	-	5/5

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

During the year, 13 other Board meetings were held, some at short notice. Of those meetings, four dealt with borrowing and facilities, bond redemptions and the prospectus; five dealt with interim dividends, four of which arose from routine quarterly interim dividends linked to the AWSF Group's finance structure; two dealt with Ofcom Certificates; and two dealt with the formalities surrounding appointment of an additional Independent Non-Executive Director.

Since 31 March 2015, three further scheduled Board meetings have been held, which all Directors attended save Christian Seymour who was unable to attend on 1 April and 21 May.

A further meeting of the Audit Committee was held on 20 May 2015 and a further meeting of the Remuneration Committee was held on 21 May 2015. All members attended these meetings save Christian Seymour who was unable to attend the Remuneration Committee meeting on 21 May 2015.

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.

#### **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. 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, Articles of Association, Group structure chart and the 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. A thorough external evaluation of the Board and its Committees was conducted during the year. This was facilitated by Bernice Dunsmuir of Constal, under the direction of the Chairman. Constal has no other connection to the Company. The evaluation took the form of an *online questionnaire*. Board and Committee members were invited to provide comments on each key area of Board and Committee activity. The output from the evaluation was compiled into a report, which also included a number of recommendations from Bernice Dunsmuir. The report was presented to the Board at its meeting on 1 April 2015 for consideration and debate. 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. At its meeting on 21 May 2015, the Board considered and agreed an action plan, which is being monitored by the Chairman, with the support of the Company Secretary. The plan includes actions to:

## CORPORATE GOVERNANCE REPORT

- Undertake periodic informal reviews of Board performance to allow the Board to assess how the Board is working in light of the new Chairman and members
- Consider the current Board arrangements (size, number of meetings and scheduling)
- Ensure that there is sufficient time in the Board agenda to focus on challenges/opportunities arising from regulatory reform and strategic choices available to the Company
- Review performance packs in the light of the advent of totex (total expenditure) and Outcome Delivery Incentives (ODIs).

No evaluation of the Chairman was undertaken due to the recent changes in this role. However, a performance evaluation of the Chairman will be conducted during the 2015/16 financial year.

### Relations with shareholders

In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, while having due regard to the interests of other stakeholders in the Group including 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 2015 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). For the 2014/15 financial year the Group's internal and financial controls included 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 (GIA), 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 March 2015. 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.

Following the introduction of the 2015 Code, KPMG was commissioned to carry out a review of the current risk management structures. This review was considered by the Audit Committee at its meeting on 20 May 2015.

#### **Corporate governance statement**

As noted above, the Company has elected to comply with the 2014 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:

- G29: It is acknowledged that both Robert Napier and John Watkinson have served on the Board for more than nine years. However, both Robert Napier and John Watkinson continue to undertake a variety of other external roles that provide them with a range of experience and perspectives such that they are able to bring an independent approach to the Board. Both Robert Napier and John Watkinson continue to provide constructive challenge to Management. Robert Napier and John Watkinson's independence was formally reviewed on 1 April 2015 in the light of the output from an externally facilitated evaluation and the Board confirmed that they both remain independent in judgement and character.
- L57: While a formal and rigorous external evaluation of the performance of the Board, its Committees and Directors was undertaken, the Board has decided not to undertake an evaluation of the Chairman due to the recent changes to the role. However, a performance evaluation of the Chairman will be conducted during the 2015/16 financial year.

This Report was approved by the Board of Directors on 29 May 2015.

**Claire Russell**  
Company Secretary  
29 May 2015



# 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 they contain
- Review financial statements and significant financial returns to regulators
- Review the integrity of the Company's systems 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

As at 31 March 2015 the Audit Committee comprised four of the five Independent Non-Executive Directors (Stephen Billingham, Christopher Garnett, John Watkinson and Robert Napier) and was chaired by Stephen Billingham. Robert Napier, who was Chairman until 21 January 2015, was formerly Financial Director of Redland Plc and has prior audit committee experience. Robert Napier was therefore considered by the Board to have relevant financial experience. Due to his appointment as Chairman of the Company, Robert Napier stepped down as Chairman of the Audit Committee with effect from 21 January 2015 and he was replaced by Stephen Billingham. Stephen Billingham was formerly Group Finance Director of British Energy Group plc and WS Atkins plc and is therefore considered by the Board to have relevant financial experience. On 1 April 2015, Robert Napier and John Watkinson resigned as members of the Audit Committee and Stephen Billingham stepped down as Chairman. On the same day, John Hirst was appointed as Chairman and Steve Good was appointed as a member of the Audit Committee. As at the date of this Report the members of the Committee are John Hirst (Chairman), Stephen

Billingham, Steve Good and Christopher Garnett. John Hirst was formerly Group Treasurer of ICI plc and Chairman of the Audit Committee at Hammerson plc and 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, 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 2015 and conducted the following business, the results of which were fully reported to the Board:

## Meeting dates and main activities

### 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 key issues and areas of judgement in relation to the 2014 financial statements (including the calculation of the measured income accrual and the calculation of the bad debt provision)
- 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
- Update on the conversion to IFRS and the revaluation of assets

- Met with both internal audit and the external auditor without management being present.

#### **26 November 2014**

- Noted the appointment of Stephen Billingham as a member of the Audit Committee
- Reviewed the interim results for the period ended 30 September 2014, accounts, draft press release and going concern statement
- Considered reports by the external auditor on its review of the interim results
- Considered material litigation affecting the Company
- Considered the AWG Risk Register
- Received the internal audit report
- Considered the internal audit of data protection arrangements
- Considered fixed asset revaluation
- Considered the audit strategy for the 2015 financial year
- Met with both internal audit and the external auditor without management being present.

#### **2 March 2015**

- Reviewed the Internal Audit Plan for 2015/16
- Reviewed the Internal Auditor's Audit Charter
- Considered compliance with the 2014 Code and the requirements of the 2015 Code
- Received the external auditor's report on the internal control environment.

#### **A further meeting of the Committee was held on 20 May 2015**

- Noted Audit Committee membership
- Reviewed the Preliminary results and draft Annual Report and Accounts for the financial year ending 31 March 2015 and the going concern statement
- Review of key issues and areas of judgement in relation to the 2015 financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, the valuation of financial instruments and effectiveness of hedge relationships, a review of the accounting and disclosures relating to the transition to IFRS and a review of investment value and goodwill)
- 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
- Considered Committee effectiveness review
- 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 annually report the findings of their review of the internal control environment to the Audit Committee. 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.

## AUDIT COMMITTEE REPORT

### **Whistleblowing programme**

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

The programme encourages employees to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline operated by GIA. GIA maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller to decide whether there are grounds for further investigation. If so, allegations are then escalated to a designated person (Finance Director, Human Resources Director, Managing Director, Audit Committee or GIA). Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by GIA of each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released. This policy and related procedures and any allegations made via the process are monitored by the Audit Committee.

### **Non-audit services**

A key factor that may impair the external 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 5 to the Financial Statements on page 137. The non-audit fees in the year to 31 March 2015 were £0.3 million and predominantly related to regulatory reporting, assurance in relation to the annual offering circular, pension advice, IFRS transition and VAT advisory services. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors.

### **Internal audit**

The provision of internal audit services is outsourced to KPMG. KPMG was appointed by the Company on 23 June 2011 for a five-year term following a competitive tendering process. In February 2014 the Committee approved the internal audit plan for 2014/15 and the plan for 2015/16 was approved at its meeting on 2 March 2015. The internal audit contract with KPMG expires in 2016. During the year, the Committee received regular reports from internal audit, which set out KPMG's view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

The Audit Committee actively contributes to the development of the annual internal audit plan, and regularly monitors whether internal audit has delivered its 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.

### **Independence of external auditors**

The effectiveness of the external audit process is principally measured by the quality and timeliness of the 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 2015, the Committee was satisfied with the performance, objectivity and independence of PwC as the external auditor. The auditor, PwC, has indicated its willingness to stay in office and is deemed to be reappointed.

### Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the external Board evaluation process, detailed on page 77. No material shortcomings in the operation of the Committee were highlighted. At its meeting on 20 May 2015, the Committee considered a number of recommendations. The recommendations included:

- Reviewing approach to risk management
- Considering the effectiveness of the performance management system
- Considering whether changes were required to the Committee papers.

### Annual Report and Accounts

The Audit Committee considers 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 has 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 2015 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 in making 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 outcome of the estimate for measured income for the year ended 31 March 2015, which was consistent with that used in previous years.
- Bad debt provision - the Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience.

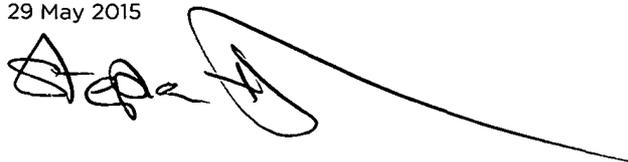
- Litigation - the Committee reviewed the Legal Director's report on outstanding litigation.
- Treasury - referring to the assessment of derivative fair values and assessment of hedge effectiveness.

Further details of the above accounting judgements and estimates are set out in accounting policies note 1 in the financial statements on page 132.

This Report was approved by the Board of Directors on 29 May 2015.

### Stephen Billingham

Chairman of the Audit Committee at 31 March 2015  
29 May 2015



# NOMINATION COMMITTEE REPORT

## Role of the Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. 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 Independent 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 1 April 2014 to 26 November 2014, the Nomination Committee comprised all four of the Independent Non-Executive Directors and the four additional Non-Executive Directors and was chaired by Robert Napier. Stephen Billingham and James Bryce were appointed to the Committee on 27 November 2014 and 1 December 2014 respectively. Due to his appointment as Chairman of the Company, Robert Napier stepped down as Chairman of the Nomination Committee with effect from 21 January 2015 and he was replaced by John Watkinson. On 1 April 2015 Robert Napier and John Watkinson stepped down as members of the Committee. On the same day, Stephen

Billingham was appointed as Chairman of the Committee and Polly Courtice and Steve Good were appointed as members of the Committee. As at the date of this Report the members of the Committee are Stephen Billingham (Chairman), James Bryce, Polly Courtice, Andrew Cox, Christopher Garnett, Steve Good, Niall Mills, Christian Seymour and Paul Whittaker.

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, Chief Executive Officer, and Kate Kelly, Group HR and Change Director to attend meetings during the year. The Company Secretary is Secretary to the Nomination Committee.

## Meeting frequency and main activities in the year

The Nomination Committee met 12 times during the year ending 31 March 2015. The significant number of meetings held during the year is due to the number of changes in Board and Committee composition. During the year, the Committee conducted a thorough search and selection process, carried out with the assistance of The Inzito Partnership and The Zygos Partnership (executive search firms specialising in senior appointments, neither organisation is connected to the Company), to identify suitable candidates for the post of Chairman and additional Independent Non-Executive Directors.

As part of this process and following an evaluation of the balance of skills, experience, independence and knowledge, the Committee recommended to the Board that Stephen Billingham be appointed as an Independent Non-Executive Director, with effect from 26 November 2014. When commissioning this search process, the Committee had required that the appointee have the requisite financial experience to act as Audit Committee Chairman. It has also specified that candidates should have the potential to step into the role of Chairman at a future date.

Following Sir Adrian Montague's decision to resign from the Board, with effect from 22 January 2015, the Committee recommended that Robert Napier be appointed Chairman on an interim basis, while the recruitment process for his successor was completed. During the process the Committee considered Stephen Billingham's suitability for the role, having regard to his experience and his approach to the management of the Board. After careful consideration the Committee recommended to the Board that

Stephen Billingham be appointed as Chairman of the Company, with effect from 1 April 2015.

At its meeting on 4 February 2015, the Committee considered a skills matrix, which included a review of the expertise of the current Independent Non-Executive Directors and also detailed the background and skills required for new Board appointments. Using this matrix the Committee reviewed a long list of candidates both for the role of Chairman of the Audit Committee and additional Independent Non-Executive Directors from which a short list was selected. Following interviews with short-listed candidates, the Committee recommended to the Board that it should appoint John Hirst as an Independent Non-Executive Director and Chairman of the Audit Committee, and Steve Good and Polly Courtice as Independent Non-Executive Directors. All three appointments were with effect from 1 April 2015.

During the 2013/14 financial year the Committee commissioned a review of the Company's performance in relation to diversity. The findings of this review were presented to the July 2014 meeting of the Committee, and a Company-wide diversity policy and diversity action plan was agreed for implementation. The action plan contains a range of actions around the areas of gender, ethnicity, disability and age and is available to view on the Company's website. At Board level 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 43 of the Strategic Report.

All business discussed by the Committee during the course of the year was reported to the Board.

#### **Committee performance and effectiveness**

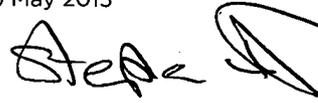
An annual review of the Committee's performance was undertaken as part of the external Board evaluation process, as detailed on page 77.

No material shortcomings in the operation of the Committee were highlighted. The Committee considered the outcome of the evaluation at its meeting on 1 April 2015 and it was agreed that there was scope to make minor improvements in relation to succession planning.

This Report was approved by the Board of Directors on 29 May 2015.

#### **Stephen Billingham**

Chairman of the Nomination Committee  
29 May 2015



# REMUNERATION REPORT

## 2015 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 2015, and the policy for 2015/16.

### Company performance in 2014/15

As already described in the Strategic Report, 2014/15 was another year of strong performance. The Company delivered industry-leading results on leakage, a big reduction in customer complaints, the best ever health and safety performance, excellent water quality results, and the lowest ever level of non-compliant water recycling works. All this has been achieved while maintaining stable serviceability across all four asset classes and strong financial performance, and exceeding stretching targets on reduction of both embodied and operational carbon.

In assessing executive performance during 2014/15, the Board considers that the management team has continued to provide very effective leadership through challenging times; this has included protecting customers from the impact of extreme weather conditions, which brought severe storms and flooding to communities in our region last summer, achieving a positive Final Determination in the PR14 price review, and preparing the business for the introduction of totex-based regulation in 2015.

### Remuneration outcomes in 2014/15

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 that 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 three of the five financial measures, and achieved between base and stretch target on one other financial measure. Although the stretch target for shareholder distribution capability was exceeded, actual distributions to shareholders were reduced following a Board decision in the light of the Final Determination. As a consequence, the Committee chose to apply its discretion, recommending to the Board that, for Peter Simpson and Scott Longhurst, no payment should be awarded for this measure, and that Chris Newsome and Jean Spencer should receive only half of the stretch payment level on this measure.

On non-financial targets, the Company outperformed its stretch targets on two of the six measures, exceeded base target on one measure, achieved base on one measure and threshold on one further measure, and missed threshold on one.

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 2014/15 were between 75.8 per cent and 81.0 per cent of annual bonus potential.

On 31 March 2015, the performance period ended for long-term incentive awards made in 2012. These awards were based on performance from 1 April 2012 to 31 March 2015 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 two of the measures, exceeded base target on the third measure and achieved performance between threshold and base target on the fourth measure. As a result of this performance over the three-year performance period, the percentage of base award vesting is 77.5 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 92.

Consistent with the salary increase for the general workforce, Peter Simpson, Scott Longhurst and Chris Newsome received an increase of 2.5 per cent to basic salary from 1 April 2014. As explained in the 2014 Remuneration Report, Jean Spencer received a salary increase of £50,000 in January 2014, as an adjustment for market forces, and on this basis no further increase was considered necessary in 2014/15.

### Other key decisions

In preparation for the start of the new Asset Management Plan period in April 2015, the Committee carried out a thorough review of incentive design to ensure incentives are aligned to the key priorities for the business. As a result, the design of the annual bonus and long-term incentive arrangements has been simplified, and performance conditions refreshed.

As part of this review, the Committee also considered the structure and quantum of Executive Director packages to ensure they remain appropriate against the market.

The review was supported by external remuneration consultants Kepler, and took into account benchmark data from a large number of other UK water companies, the wider utility sector and, where appropriate, listed companies.

As a result of the remuneration review, the following changes were approved by the Board:

- Peter Simpson's basic pay will increase from £445,875 to £465,000 on 1 April 2015, and to £480,000 on 1 April 2016. This includes an increase reflecting his promotion to Group CEO in 2013, which was awarded by the Board in 2014 but deferred to April 2015 at Peter's request
- Scott Longhurst's basic pay will increase from £445,875 to £462,938 on 1 April 2015, and to £480,000 on 1 April 2016
- To simplify the remuneration structure, Peter Simpson and Scott Longhurst will each receive annual awards worth 150 per cent of basic salary under the new long-term incentive plan (LTIP) design, rather than two separate awards totalling 150 per cent under previous arrangements. No further awards will be made to them under the additional LTIP described in the 2014 Remuneration Report.

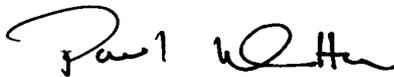
#### **Chairman and Non-Executive Director appointments**

During the year, the Committee made recommendations to the Board on remuneration for the role of Chairman and fees for Independent Non-Executive Directors.

Details of the remuneration of the Chairman and Independent Non-Executive Directors are set out in Table 17 on page 115.

#### **Paul Whittaker**

Chairman of the Remuneration Committee  
29 May 2015



## REMUNERATION REPORT

### Directors' Remuneration Policy

**This part of the Directors' Remuneration Report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year ended 31 March 2015, and any changes for the year ending 31 March 2016.**

#### The Remuneration Committee

The Remuneration Committee is a committee of the Board of 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 at: [www.anglianwater.co.uk/aboutus/terms-of-reference.aspx](http://www.anglianwater.co.uk/aboutus/terms-of-reference.aspx).

Between 1 April 2014 and 25 November 2015, the Committee comprised 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. On 27 November 2014, Stephen Billingham joined the Committee, bringing the number of Independent Non-Executive Directors to four. James Bryce replaced Andreas Köttering as a member of the Committee on 1 December 2014.

Between 1 April 2014 and 21 January 2015, the Committee was chaired by Robert Napier. On 21 January 2015, Robert Napier stood down as Chair of the Committee and was replaced by Paul Whittaker.

Steve Good and John Hirst were appointed as members of the Committee on 1 April 2015. As at the date of this Report, the members of the Committee are Paul Whittaker (Chairman), James Bryce, Stephen Billingham, John Hirst, Steve Good, Andrew Cox, Christopher Garnett, Niall Mills and Christian Seymour.

Only Committee members are entitled to attend meetings, but the Chairman, 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 benefiting 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 Independent 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 Independent Non-Executive Directors who chair Board Committees, to reflect the significant additional responsibilities attracted 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 rewarded 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 Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of the Independent 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. 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 Independent Non-Executive Directors, subject to performance reviews.

James Bryce, Andrew Cox, Niall Mills and Christian Seymour represent the ultimate owners of the Company. Consequently, they do not have letters of appointment or service contracts, nor do they receive a fee from the Company for their services.

# REMUNERATION REPORT

## Illustrations of application of the remuneration policy

The charts below show the total potential remuneration that could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2015/16.

In these charts:

- Fixed remuneration is the minimum payable, and is made up of base pay for 2015/16 plus the value of pension and benefits
- The short-term incentive is the annual bonus for 2015/16
- The long-term incentive is the LTIP under which base awards will be made in 2015/16
- For the annual bonus, the Board has set base and stretch targets, or a range of minimum and maximum levels of performance that would qualify for a sliding scale of payments
- For the LTIP, the Board has set base, stretch and superstretch targets

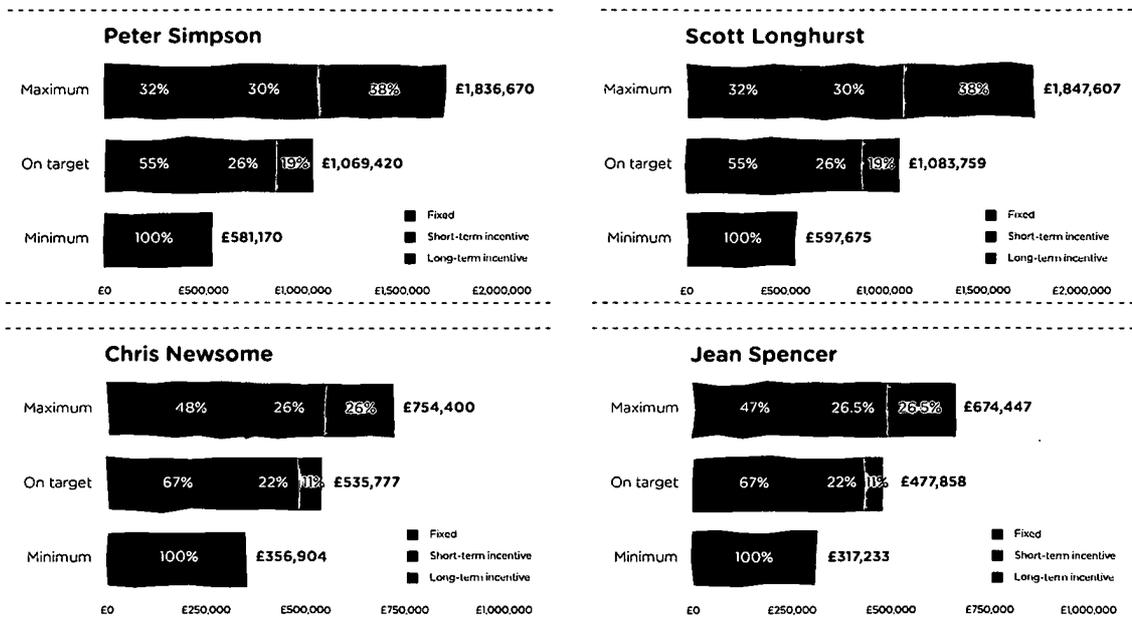
- The 'on target' bar in the charts below therefore shows the percentage of fixed remuneration that could be earned for base levels of performance, or minimum threshold performance where the targets are set as a range.

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.

Where superstretch targets have been set, the 'maximum' bar shows the percentage that could be earned for superstretch or stretch performance, depending on whether a superstretch target has been set.

The maximum bars in all the charts include LTIP awards granted in 2015 but which are due to vest in subsequent years; they do not include the LTIP awards granted in 2013, which will vest in May 2016.

**Table 1: Total remuneration that could be payable from AWS and AWG in 2015/16, 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 takes 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.

### **Consideration of shareholder views**

Non-Executive Directors representing the ultimate owners of the Company 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.

### **Disclosures of targets and actual performance**

The disclosure 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.

# REMUNERATION REPORT

## 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 2015, and any changes for the year ending 31 March 2016.**

## 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 2012 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 70 per cent performance-related and 30 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 2015/16
<b>Base salary</b>				
Help recruit and retain employees.	<p>Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by:</p> <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> <p>Salaries are benchmarked against the FTSE 250 and other comparable utility companies.</p>	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	<p>Following a review of relevant external benchmarking data, the Board agreed that from 1 April 2015:</p> <ul style="list-style-type: none"> <li>- Peter Simpson would receive a base salary increase to £465,000. This includes an increase deferred from 2014 at Peter Simpson's request, which reflected his promotion to Group CEO in 2013</li> <li>- Scott Longhurst would receive a base salary increase to £462,938</li> <li>- Jean Spencer and Chris Newsome would receive a base salary increase of 1.4%, consistent with the increase awarded for the general workforce.</li> </ul>
<b>Benefits</b>				
Help recruit and retain employees.	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	<p>For Peter Simpson the value of these benefits is equivalent to 4.4% of basic pay.</p> <p>For Scott Longhurst it is 4.3%.</p> <p>For Chris Newsome it is 9.7% and for Jean Spencer it is 6.7%.</p>	n/a	No changes proposed.

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 2015/16
<b>Annual bonus</b>				
Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives.	<p>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.</p> <p>Bonus payment is determined by the Committee after the year end, based on performance against company targets and personal objectives.</p> <p>The Committee has the discretion to reduce the bonus in the event of material issues in relation to service, health and safety, quality, financial performance, reputation and regulatory performance.</p>	<p>Peter Simpson's maximum annual bonus potential is 120% of base salary.</p> <p>70% of this is based on company targets and 30% on personal objectives. Peter Simpson receives up to 60% of base salary for achieving base targets, and up to 120% for achieving stretch targets.</p> <p>Scott Longhurst's maximum annual bonus potential is 120% of base salary. 70% of this is based on company targets (including the performance of the non-regulated businesses he manages) and 30% on personal objectives.</p> <p>Scott Longhurst receives up to 60% of base salary for achieving base targets, and up to 120% for achieving stretch targets.</p> <p>Chris Newsome and Jean Spencer's maximum annual bonus potential is 75% of base salary.</p> <p>75% of this is based on company targets, and 25% on personal objectives. They receive up to 45% of base salary for achieving base targets, and up to 75% 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 of incentives for the new AMP described in the Remuneration Committee Chairman's statement, changes have been made to the design of the annual bonus for 2015/16:</p> <p>The performance conditions have been refreshed to reflect the key priorities for the business in the 2015/16 year; these are shown in Table 11.</p> <p>Additional discretions have been introduced enabling the Committee to claw back bonus already paid, where in the judgement of the Committee, there has been serious misconduct. Further information is provided on page 106.</p>
<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 LTIP. 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>As a result of the review of incentives for the new AMP described in the Remuneration Committee Chairman's Statement, changes have been made to the design of the LTIP from 2015:</p> <p>The performance conditions have been refreshed to reflect the key priorities for the business during the next Asset Management Period (2015-2020). The performance conditions for the 2015 award are shown in Table 15.</p>

# 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 2015/16
<b>Long-term incentive plan (LTIP) (continued)</b>				
				<p>Additional discretions have been introduced enabling the Committee to claw back LTIP payments already received, where, in the judgement of the Committee, there has been serious misconduct.</p> <p>Peter Simpson and Scott Longhurst will each receive a base award worth 150% of salary under this new design. There will be no further awards made under the additional LTIP.</p> <p>Further information on changes to the LTIP is provided on page 107.</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 that is currently £136,161. 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> <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>	n/a	No changes proposed.

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 2015/16
<b>Pension (Continued)</b>				
		The Company has a contractual commitment to pay 25% of salary into a pension arrangement for Scott Longhurst, Chris Newsome and Jean Spencer.		
		To avoid exceeding the lifetime allowance, Scott Longhurst ceased saving into the defined contribution pension arrangement on 31/12/2011/12. Chris Newsome ceased saving from 1 January 2014, and Jean Spencer from 1 February 2014.		
		The contractual commitment in respect of company contributions to pension for Scott Longhurst, Chris Newsome and Jean Spencer is delivered through a cash paid benefit, which is subject to, and national insurance deductions.		
		Scott Longhurst, Chris Newsome and Jean Spencer remain covered for death benefits through the scheme.		

## REMUNERATION REPORT

### 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 2013/14 and 2014/15. The designs 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 that could be earned for minimum and maximum performance levels.

**Table 3: Peter Simpson**

Component of remuneration	2013/14 value (% of base pay)		2014/15 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>	4.6	4.6	4.4	4.4
Pension <sup>2</sup>	12.5	12.5	12.5	12.5
Bonus	75	100	60.0	120.0
Long-term incentive plan (LTIP) <sup>3</sup>	14	100	12.5	100.0
<b>Total as % of base pay</b>	<b>206.1</b>	<b>317.1</b>	<b>189.4</b>	<b>336.9</b>
Variable pay - bonus and LTIP (as % of base pay)	43.2	63.1	38.3	65.3
Long-term pay - LTIP and pension (as % of base pay)	12.9	35.5	13.2	33.4

<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 £136,181, 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 cash payment is subject to tax deductions and national insurance contributions.

<sup>3</sup> For current and prior year, this table does not include an award of 50% of base salary, made under an additional LTIP, and paid for by AWG. Further information is provided in Table 1, page 90.

**Table 3 (continued): Scott Longhurst**

Component of remuneration	2013/14 value (% of base pay)		2014/15 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>	4.5	4.5	4.3	4.3
Pension	25.0	25.0	25.0	25.0
Bonus	75.0	100.0	60	120.0
Long-term incentive plan (LTIP) <sup>2</sup>	14.0	100.0	12.5	100.0
<b>Total as % of base pay</b>	<b>218.5</b>	<b>329.5</b>	<b>201.8</b>	<b>349.3</b>
Variable pay - bonus and LTIP (as % of base pay)	40.7	60.7	35.9	63.0
Long-term pay - LTIP and pension (as % of base pay)	17.8	37.9	18.6	35.8

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

<sup>2</sup> For current and prior year, this table does not include an award of 50% of base salary, made under an additional LTIP, and paid for by AWG. Further information is provided in Table 1, page 90.

**Table 3 (continued): Chris Newsome**

Component of remuneration	2013/14 value (% of base pay)		2014/15 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>	10.2	10.2	9.7	9.7
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	19.5	75.0	9.4	75.0
<b>Total as % of base pay</b>	<b>199.7</b>	<b>285.2</b>	<b>189.1</b>	<b>284.7</b>
Variable pay - bonus and LTIP (as % of base pay)	32.3	52.6	28.8	52.7
Long-term pay - LTIP and pension (as % of base pay)	22.3	35.1	18.2	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	2013/14 value (% of base pay)		2014/15 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>	8.1	8.1	6.7	6.7
Pension	25.0	25.0	25.0	25.0
Bonus	30.0	50.0	45.0	75.0
Long-term incentive plan (LTIP)	19.5	75.0	9.4	75.0
<b>Total as % of base pay</b>	<b>182.6</b>	<b>258.1</b>	<b>186.1</b>	<b>281.7</b>
Variable pay - bonus and LTIP (as % of base pay)	27.1	48.4	29.2	53.2
Long-term pay - LTIP and pension (as % of base pay)	24.4	38.8	18.5	35.5

<sup>1</sup> Benefits are private health insurance, car allowance, private fuel and life assurance.

## Outcomes for 2014/15

### 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 £	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
Scott Longhurst	261,000	267,525	11,850	11,402	68,904	70,627	244,867	255,058	0	0	586,621	604,612
Chris Newsome	254,964	261,339	26,085	25,279	63,035	65,708	164,190	151,278	195,536	156,666	703,810	660,270
Peter Simpson	304,500	312,113	13,910	13,603	61,691	67,716	274,933	283,804	488,185	374,209	1,143,218	1,051,445
Jean Spencer	197,316	235,000	15,897	15,814	51,522	62,040	84,342	141,964	148,778	119,202	497,855	574,020
<b>Total Executive Directors</b>	<b>1,017,780</b>	<b>1,075,976</b>	<b>67,742</b>	<b>66,097</b>	<b>245,152</b>	<b>266,091</b>	<b>768,322</b>	<b>832,104</b>	<b>832,499</b>	<b>650,077</b>	<b>2,931,505</b>	<b>2,890,347</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 £	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
Scott Longhurst	174,000	178,350	7,900	7,601	45,936	47,084	163,245	170,039	488,185	374,209	879,266	777,283
Chris Newsome	0	0	0	0	0	0	0	0	0	0	0	0
Peter Simpson	130,500	133,763	5,961	5,830	26,439	29,021	117,828	121,630	0	0	280,729	290,244
Jean Spencer	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Executive Directors</b>	<b>304,500</b>	<b>312,113</b>	<b>13,861</b>	<b>13,431</b>	<b>72,375</b>	<b>76,105</b>	<b>281,073</b>	<b>291,669</b>	<b>488,185</b>	<b>374,209</b>	<b>1,159,994</b>	<b>1,067,527</b>

## Outcomes for 2014/15

### 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 AWG companies £	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15 <sup>5</sup>	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
Scott Longhurst	435,000	445,875	19,750	19,003	114,840	117,711	408,112	425,097	488,185	374,209	1,465,887	1,381,895
Chris Newsome	254,964	261,339	26,085	25,279	63,035	65,708	164,190	151,278	195,536	156,666	703,810	660,270
Peter Simpson	435,000	445,876	19,871	19,433	88,130	96,737	392,761	405,434	488,185	374,209	1,423,947	1,341,689
Jean Spencer	197,316	235,000	15,897	15,814	51,522	62,040	84,342	141,964	148,778	119,202	497,855	547,020
<b>Total Executive Directors</b>	<b>1,322,280</b>	<b>1,388,090</b>	<b>81,603</b>	<b>79,529</b>	<b>317,527</b>	<b>342,196</b>	<b>1,049,405</b>	<b>1,123,774</b>	<b>1,320,684</b>	<b>1,024,286</b>	<b>4,091,499</b>	<b>3,957,874</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 cash payments in lieu of contractual commitments.

<sup>3</sup> In addition to the above payments for 2014/15, the Executive Directors received a payment in respect of performance under the Service Incentive Mechanism (SIM) in 2013/14. 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 2014 accounts were finalised. In May 2014, 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 2014, and showed that the Company had achieved its stretch target for the overall SIM metric for the 2013/14 year. The Remuneration Committee therefore approved an additional payment in accordance with the scheme design. This payment will be made in June 2015.

<sup>4</sup> This long-term incentive payment relates to the three-year performance period ending in March 2015. 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 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 members), and September CPI inflation for the previous year. For 2013, the relevant rate was the September 2012 CPI, which was 2.2%. For 2014 the relevant rate was the September 2013 CPI, which was 2.5%.

## 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.

As Group CEO, Peter Simpson spends a proportion of his time on group-wide matters. Consequently, 70 per cent of his basic salary, benefits, pension and annual bonus costs are charged to the Company. 67 per cent of his long-term incentives are charged to the Company.

During 2014/15, Scott Longhurst's role included responsibility for corporate activities beyond the water company, including responsibility for our

remaining international and property businesses, and our retail business Anglian Water Business. 60 per cent of his basic salary, benefits, pension and annual bonus costs 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 six financial years, in accordance with the disclosures required under UK regulations.

Table 5

	Peter Simpson 2014/15	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>1,341,689</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	(5.2)	0.6	20.5	7.1	(86.7)	-	-
Annual bonus paid as a % of maximum potential	75.8	90.4	95.9	96.4	93.8	95.5	98.2
LTIP paid as a % of maximum potential	77.5	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.

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 that 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 2013/14 to 2014/15. 'Other employees' are the employees of Anglian Water Services and AWG Central Services, who have been employed for the full 2014/15 year. This group excludes the senior executives on the Management Board of Anglian Water Services, and has been chosen because they are considered to be the most representative of the overall workforce.

**Table 6**

	% change in CEO remuneration 2014/15 vs 2013/14	% change in remuneration for other employees 2014/15 vs 2013/14
Base pay <sup>1</sup>	2.5	4.7
Taxable benefits <sup>2</sup>	(2.2)	1.9
Annual bonus	(14.6)	1.1
Annual bonus including special outperformance bonus <sup>3</sup>	(14.6)	(13.0)

<sup>1</sup> Includes company-wide annual pay review, and increases due to internal promotions and salary progression.

<sup>2</sup> The reduction in taxable benefits for the CEO relates to a reduction of £400 for the cost of private fuel. The small increase for 'other employees' relates to the year-on-year increase in the benefit charge on company cars, based on CO<sub>2</sub> emissions, under the Income Tax (Earnings and Pensions) Act 2003.

<sup>3</sup> A special bonus for outperformance in the 2013/14 year was paid to the general workforce in September 2014. For full-time staff this bonus was £250. This is not part of our normal annual bonus arrangements and the CEO did not participate.

### 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 2014 and 31 March 2015.

**Table 7**

	AWS		
	2014/15 £m	2013/14 £m	% change
Remuneration paid to employees <sup>1</sup>	166.6	156.2	6.7
Distribution to shareholders <sup>2</sup>	180.2	202.1	(10.8)
Capital investment <sup>3</sup>	360.1	401.4	(10.3)

<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 increases for employees throughout the Group. During the annual pay review, the Committee recommended to the Board that in view of the pay freeze in 2013, Peter Simpson, Scott Longhurst and Chris Newsome should receive a base pay increase of 2.5 per cent in 2014, consistent with the pay award to the general workforce. The Committee further recommended that since Jean Spencer's basic pay had been increased by £50,000 as an adjustment for market forces, no further increase was necessary or appropriate.

### Total pension entitlement

The defined benefit section of the Anglian Water Group Pension Scheme (AWGPS) was closed to new entrants in 2002. The scheme provides funded defined benefit pension arrangements. Peter Simpson is still a member and, as explained in Table 2 (page 94), 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 that accrued during the year to 31 March 2015 are summarised below:

**Table 8 (Audited)**

	Accrued pension at 31 March 2015 £	Accrued pension at 31 March 2014 £	Increase in accrued pension £
Peter Simpson	64,068	59,484	4,584

### Annual bonus

#### Framework for 2014/15

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, stretch and, where appropriate, minimum threshold 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 issues on service, quality, health and safety, reputation, and financial and regulatory performance.

Table 9 shows the performance measures and weightings for the annual bonus for 2014/15.

Table 9: Annual bonus plan for Executive Directors

Performance measure	Weighting for 2014/15 as % of base pay		
	Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
<b>Financial measures</b>	<b>42.00</b>	<b>36.00</b>	<b>26.25</b>
Shareholder distribution capability	8.40	7.20	5.25
Operating cost	8.40	7.20	5.25
EBITDA	8.40	7.20	5.25
Operating cash flow	8.40	7.20	5.25
Net cash flow	8.40	7.20	5.25
<b>Non-financial measures</b>	<b>42.00</b>	<b>36.00</b>	<b>26.25</b>
Service Incentive Mechanism <sup>1</sup>	12.60	10.80	7.88
Capital Delivery Index (CDI) <sup>2</sup>	12.60	10.80	7.88
Delivery on time - capital maintenance schemes <sup>3</sup>	8.40	7.20	5.25
Number of unconsented pollutions in Environment Agency Categories 1-3 <sup>4</sup>	4.20	3.60	2.62
Acceptability of water to consumers per 1,000 population <sup>5</sup>	4.20	3.60	2.62
<b>Non-regulated businesses' performance</b>	<b>0.00</b>	<b>12.00</b>	<b>0.00</b>
<b>Personal objectives</b>	<b>36.00</b>	<b>36.00</b>	<b>22.50</b>
<b>Total % base pay</b>	<b>120.00</b>	<b>120.00</b>	<b>75.00</b>

<sup>1</sup> 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 that 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 did not carry out surveys in 2014/15, it was not possible to measure Anglian Water's relative position compared with other companies during 2014/15. The Board therefore approved the continued use of the same independent research company used by Ofwat, to carry out customer satisfaction surveys, and set stretching targets for both qualitative and quantitative performance.

For 2014/15, the Board approved a weighting of 75% for the qualitative part of the measure, and 25% on the quantitative part of the measure. This was to prepare the business for the way in which Ofwat had announced they would be weighting each element when calculating relative performance between different companies during AMP6.

<sup>2</sup> The Capital Delivery Index is an aggregate index of our targets set by the Board, measuring efficient delivery of our capital programme.

<sup>3</sup> The '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.

<sup>4</sup> This is the number of pollution incidents 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. This is a fundamental measure of our impact on the environment, and reflects the Company's determination to improve performance in this area.

<sup>5</sup> 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.

## REMUNERATION REPORT

### **Outcomes for 2014/15**

In assessing performance against annual bonus targets, the Committee is satisfied that the Company outperformed the stretch target on three of the five financial measures (control of operating costs, control of operating cash flow and net cash flow), and achieved between base and stretch target on the EBITDA measure. Although the stretch target for shareholder distribution capability was exceeded, actual distributions to shareholders were reduced following a Board decision in the light of the Final Determination. As a consequence, the Committee chose to apply its discretion, recommending to the Board that for Peter Simpson and Scott Longhurst, no payment should be awarded for this measure, and that Chris Newsome and Jean Spencer should receive only half of the stretch payment level on this measure.

On non-financial targets, the Service Incentive Mechanism (SIM) has two parts: the Company exceeded the stretch target for the quantitative part, but did not achieve the very challenging base target set for the qualitative (customer survey) element. The Company outperformed its stretch target on the Capital Delivery Index, exceeded base target on the 'delivery on time' measure, and achieved the base target for acceptability of water to consumers. The Company achieved the threshold target for reducing the number of pollutions, but under the design of the scheme, no payment is made for threshold performance on this measure.

The Remuneration Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 68.3 per cent for Peter Simpson and Scott Longhurst, and 74.4 per cent for Chris Newsome and Jean Spencer.

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 2014/15 were between 75.8 per cent and 81 per cent of annual bonus potential.

Table 10: The table below shows the resulting annual bonus payments to Executive Directors (audited)

	Peter Simpson <sup>2</sup>		Scott Longhurst <sup>2</sup>		Chris Newsome		Jean Spencer	
	Weight for 2014/15 (as % of base pay)	Outcome %	Weight for 2014/15 (as % of base pay)	Outcome %	Weight for 2014/15 (as % of base pay)	Outcome %	Weight for 2014/15 (as % of base pay)	Outcome %
<b>Financial measure</b>	<b>42.00</b>		<b>36.00</b>		<b>26.25</b>		<b>26.25</b>	
Shareholder distribution capability	8.40	0.00	7.20	0.00	5.25	2.63	5.25	2.63
Operating cost	8.40	8.40	7.20	7.20	5.25	5.25	5.25	5.25
EBITDA	8.40	6.72	7.20	5.76	5.25	4.41	5.25	4.41
Operating cash flow	8.40	8.40	7.20	7.20	5.25	5.25	5.25	5.25
Net cash flow	8.40	8.40	7.20	7.20	5.25	5.25	5.25	5.25
<b>Non-financial measures<sup>1</sup></b>	<b>42.00</b>		<b>36.00</b>		<b>26.25</b>		<b>26.25</b>	
Service Incentive Mechanism	12.60	3.15	10.80	2.70	7.87	1.97	7.87	1.97
Capital Delivery Index (CDI)	12.60	12.60	10.80	10.80	7.87	7.88	7.87	7.88
Delivery on time - capital maintenance schemes	8.40	7.56	7.20	6.48	5.25	4.83	5.25	4.83
Number of unconsented pollutions in Environment Agency Categories 1-3	4.20	0	3.60	0	2.63	0	2.63	0
Acceptability of water to consumers per 1,000 population	4.20	2.10	3.60	1.80	2.63	1.58	2.63	1.58
<b>Non-regulated businesses' performance</b>	<b>0</b>	<b>0</b>	<b>12.00</b>	<b>12.00</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Personal objectives</b>	<b>36.00</b>	<b>33.60</b>	<b>36.00</b>	<b>34.20</b>	<b>22.50</b>	<b>21.73</b>	<b>22.50</b>	<b>21.36</b>
<b>Total % base pay</b>	<b>120.00</b>	<b>90.93</b>	<b>120.00</b>	<b>95.34</b>	<b>75.00</b>	<b>60.78</b>	<b>75.00</b>	<b>60.41</b>
<b>Base pay £</b>		<b>445,875</b>		<b>445,875</b>		<b>248,895</b>		<b>235,000</b>
<b>Bonus paid £</b>		<b>405,434</b>		<b>425,097</b>		<b>151,278</b>		<b>141,964</b>

<sup>1</sup> The non-financial measures are explained in the notes to Table 9.

<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 68.3% rather than 74.4%. This is because (i) their annual bonus for the 2014/15 year provided for 50% of their bonus to be awarded for achievement of base targets and up to 100% for stretch performance. Other Executive Directors receive 60% of their bonus for achieving base targets. Table 2 gives further details. (ii) As explained on page 104, the Committee chose to use their discretion to reduce payments on the shareholder distribution capability measure.

## REMUNERATION REPORT

### Changes for 2015/16

As explained earlier in this Report, the Committee has reviewed the company performance metrics for the annual bonus for 2015/16 to ensure they reflect the priorities for the business over this period, and to simplify the number of measures.

The performance metrics for 2015/16 are shown in Table 11. The Board has set stretching targets for all measures.

**Table 11: Annual bonus 2015/16 - performance measures and weightings**

Performance measures	Weightings as % of base pay		
	Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
<b>Financial measures</b>	<b>33.60</b>	<b>28.80</b>	<b>21.00</b>
Free cash flow	16.80	14.40	10.50
EBITDA	16.80	14.40	10.50
<b>Non-financial measures</b>	<b>50.40</b>	<b>43.20</b>	<b>31.50</b>
Outcome Delivery Incentives (ODIs) <sup>1</sup>	25.20	21.60	15.75
Totex Delivery Index (TDI) <sup>2</sup>	25.20	21.60	15.75
<b>Non-regulated businesses' performance</b>	<b>0.00</b>	<b>12.00</b>	<b>0.00</b>
<b>Personal objectives</b>	<b>36.00</b>	<b>36.00</b>	<b>22.50</b>
<b>Total % base pay</b>	<b>120.00</b>	<b>120.00</b>	<b>75.00</b>

<sup>1</sup> As part of our Business Plan for 2015-2020, the Company has agreed with our customers and Ofwat a set of challenging targets or 'outcomes', underpinned by financial rewards and penalties depending on whether the targets are achieved. The Board has selected the outcomes of most importance to customers, and set annual targets for achievement on each outcome. These annual targets have been included in the annual bonus. To keep the bonus design simple, the performance on the outcomes is measured through an overall ODI Scorecard. Within the Scorecard, each outcome has a maximum number of points, which reflect the size of the associated financial reward or penalty.

The ODI Scorecard comprises targets for:

- The Service Incentive Mechanism (explained in Table 9, note 1)
- Reduction in total number of minutes customers' water supplies are interrupted
- Reducing water lost through leakage
- Reducing pollution incidents
- Increasing the number of bathing waters in our region classed as excellent
- Reducing the number of properties affected by low water pressure
- Reducing the number of properties flooded internally and externally from sewers
- Reducing the number of contacts from customers about drinking water quality and acceptability (including appearance, taste and odour)
- Customer perceptions of affordability, fair bills and value for money
- Improving water efficiency (per property consumption).

<sup>2</sup> The Totex Delivery Index replaces the Capital Delivery Index as a measure of efficient delivery of our investment programme, and reflects the move to totex-based regulation from 2015.

As part of the review of incentive design undertaken by the Committee during 2014, the Board also agreed to introduce the following changes to annual bonus:

- The discretion to withhold annual bonus for material issues on service, quality, health and safety, financial or regulatory performance, or reputation, even where an Executive Director has achieved their personal objectives
- The discretion to claw back annual bonus already paid, where in the judgement of the Committee, there has been serious misconduct.

## Long-term incentive plan (LTIP)

### Framework

The AWG 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 14 (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 payment for loss of office (page 91)
- Defer payment until the data required to assess performance is available or verified by a third party where this is required.

As part of the review of incentives undertaken by the Committee during 2014, the Board agreed to:

- Include a further detractor for poor serviceability. Serviceability is explained below in Table 13 note 1
- Include the discretion to claw back bonus already paid, where, in the judgement of the Committee, there has been serious misconduct.

## REMUNERATION REPORT

### Additional long-term incentive plan

During the year, Peter Simpson and Scott Longhurst also participated 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 12.

**Table 12: Performance conditions and weightings for additional long-term incentive plan**

Performance measure	Description	Weighting as % of base pay
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

As part of the review of incentives undertaken by the Committee during 2014, the Board agreed to simplify the remuneration structure: from June 2015, Peter Simpson and Scott Longhurst will each receive annual awards worth 150 per cent of basic salary under the new LTIP, rather than two separate awards totalling 150 per cent under previous arrangements. No further awards will be made to them under the additional LTIP described in the 2014 Remuneration Report.

## Outcomes in 2014/15

### Long-term incentive 2012

The 2012 award under the AWG long-term incentive plan vested in May 2015. Table 13 shows the performance measures and weightings for the awards made in 2012. The performance period ran from 1 April 2012 to 31 March 2015.

**Table 13**

Performance measure	Description	Overall weighting as a % of base pay
Rate of return	Achievement of targeted average rate of return over the performance period.	40% for Peter Simpson and Scott Longhurst 30% for Jean Spencer and Chris Newsome
Serviceability <sup>1</sup>	Achievement of stable serviceability across all four asset classes.	20% 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.	20% 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 among the Water and Sewerage Companies, and be in at least third position in the final year of the performance period.	20% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome

<sup>1</sup> The Company operates within a serviceability framework that has been established by Ofwat to measure the effective maintenance and operation of the Company's assets. Ofwat monitors 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. When this measure was first included in the LTIP, it was normal practice for Ofwat to make their own assessment of serviceability status; this included a review by an independent reporter of all data informing the assessment. Ofwat has since replaced this practice with a self-governing process under which the Board assures the accuracy of their serviceability performance indicators as part of the Company's Risk and Compliance Statement. Assurance is provided to the Board by external reviews carried out by Halcrow, who previously carried out the role of reporter, and PwC. Under the new process, in accepting the Company's position, Ofwat reserves the right to reach a different conclusion at any time in the future should subsequent information indicate it appropriate.

<sup>2</sup> The Capital Delivery Index is described in Table 9, note 2.

<sup>3</sup> The Service Incentive Mechanism is described in Table 9, note 1.

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 two of the four measures (the Capital Delivery Index and the Service Incentive Mechanism), had exceeded base target on serviceability, and achieved performance between threshold and base target on the rate of return measure. The Remuneration Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 77.5 per cent. Under

the design of the scheme, awards are uplifted by the average rate of return over the performance period. For the 2012 LTIP, this was 11 per cent.

As explained on page 107, the Board has discretion to withhold up to 30 per cent of the LTIP award for certain material issues. Having reviewed the Company's performance in detail, the Committee recommended that there had been no material performance issues over the three-year performance period warranting the use of this discretion.

## REMUNERATION REPORT

**Table 14: The table below shows the resulting payments to Executive Directors during 2014/15, and the value of other long-term incentives they hold that have not yet vested (audited)**

LTIP award	Performance measure	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2014 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2015 £	Value of awards that vested at Remuneration Committee on 20 May 2015 £
<b>Peter Simpson</b>								
<b>2012 LTIP Award<sup>1</sup></b>		1 June 2012	31 March 2015		435,000	0	435,000	374,209
	Rate of return			20.4%				
	Serviceability			17.1%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
<b>2013 LTIP Award</b>		6 June 2013	31 March 2016		435,000	0	435,000	
<b>2014 LTIP Award</b>		4 June 2014	31 March 2017		0	445,875	445,875	
<b>2012 AWG LTIP<sup>2</sup></b>		29 Nov 2012	31 March 2016		217,500	0	217,500	
	Rate of return							
	AWS credit rating							
	Preparedness for market reform							
	Calibre of management team							
<b>2013 AWG LTIP<sup>2</sup></b>		6 June 2013	31 March 2016		217,500	0	217,500	
<b>2014 AWG LTIP<sup>2</sup></b>		4 June 2014	31 March 2016		0	217,500	217,500	
<b>Scott Longhurst</b>								
<b>2012 LTIP Award<sup>3</sup></b>		1 June 2012	31 March 2015		435,000	0	435,000	374,209
	Rate of return			20.4%				
	Serviceability			17.1%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
<b>2013 LTIP Award</b>		6 June 2013	31 March 2016		435,000	0	435,000	
<b>2014 LTIP Award</b>		4 June 2014	31 March 2017		0	445,875	445,875	
<b>2012 AWG LTIP</b>					217,500	0	217,500	
	Rate of return							
	AWS credit rating							
	Preparedness for market reform							
	Calibre of management team							
<b>2013 AWG LTIP</b>		6 June 2013	31 March 2016		217,500	0	217,500	
<b>2014 AWG LTIP</b>		4 June 2014	31 March 2016		0	217,500	217,500	

**Table 14: The table below shows the resulting payments to Executive Directors during 2014/15, and the value of other long-term incentives they hold that have not yet vested (audited) (continued)**

LTIP award	Performance measure	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2014 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2015 £	Value of awards that vested at Remuneration Committee on 20 May 2015 £
<b>Chris Newsome</b>								
<b>2012 LTIP Award</b>		1 June 2012	31 March 2015		182,117	0	182,117	156,666
	Rate of return			20.4%				
	Serviceability			17.1%				
	Capital Delivery Index			20%				
	Service Delivery Mechanism			20%				
<b>2013 LTIP Award</b>		6 June 2013	31 March 2016		182,117	0	182,117	
<b>2014 LTIP Award</b>		4 June 2014	31 March 2017		0	196,003	196,003	
<b>Jean Spencer</b>								
<b>2012 LTIP Award</b>		1 June 2012	31 March 2015		138,567	0	138,567	119,202
	Rate of return			20.4%				
	Serviceability			17.1%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
<b>2013 LTIP Award</b>		6 June 2013	31 March 2016		138,567	0	138,567	
<b>2014 LTIP Award</b>		4 June 2014	31 March 2017		0	180,656	180,656	

<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.

<sup>3</sup> The cost of Scott Longhurst's long-term incentives are paid by AWG and are not charged to the Company.

The performance condition on serviceability was dependent on achieving an assessment of 'stable' in the final year of the performance period. Ofwat has yet to formally determine Anglian Water's performance but based on discussions and the evidence the Company has presented, we anticipate that performance will be assessed as stable across all four asset classes. Should Ofwat subsequently reach a different conclusion, an appropriate clawback would be applied.

## REMUNERATION REPORT

### 2015 awards

The Committee intends to make further awards in June 2015, and has reviewed and updated the performance conditions to ensure they reflect the priorities for the three-year performance period from 1 April 2015 to 31 March 2018. These are shown in Table 15.

In choosing these measures, the Committee has sought to simplify the remuneration structure; the annual bonus includes measures aimed at driving

yearly improvements in customer satisfaction, service and environmental performance (the ODI Scorecard), while the long-term incentive plan is designed to reward long-term financial performance, with the Committee having the ability to withhold a proportion of the award if serviceability is not maintained or service quality becomes a reputational issue. Further information on the ODI Scorecard is at note 1, Table 11 (page 106). Further information on serviceability is at note 1, Table 13 (page 109).

**Table 15: Performance measures and weightings for 2015 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.	75	37.5
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the performance period.	75	37.5

### Executive Directors' service contracts

The following table shows the start date for each Executive Director:

	Start date as Executive Director
Scott Longhurst	18 November 2004
Chris Newsome	24 September 2004
Peter Simpson	18 November 2004
Jean Spencer	20 May 2004

### 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 Independent Non-Executive Directors' letters of appointment and expiry of current terms are:

	Date of first appointment	Date of expiry of current terms
<b>Stephen Billingham<sup>1</sup></b>	26 November 2014	No fixed term
<b>Sir Adrian Montague</b>	29 January 2010	Stepped down 22 January 2015
<b>Polly Courtice</b>	1 April 2015	31 March 2018
<b>Christopher Garnett<sup>2</sup></b>	1 December 2006	31 January 2016
<b>Steve Good</b>	1 April 2015	31 March 2018
<b>John Hirst</b>	1 April 2015	31 March 2018
<b>Robert Napier<sup>2</sup></b>	1 February 2002	30 September 2015
<b>John Watkinson<sup>2</sup></b>	12 May 2005	31 March 2016
<b>Paul Whittaker</b>	14 October 2013	13 October 2016

<sup>1</sup> Stephen Billingham was originally appointed as an Independent Non-Executive Director of the Company on 26 November 2014, on a three-year term ending on 25 November 2017. During the year, he accepted a new appointment with AWG as Group Chairman from 1 April 2015, under which he provides services to the Group and also carries out the role of Chairman of AWS. The terms of this new appointment replace his original terms and have no fixed end date, with a six-month notice period.

<sup>2</sup> It is anticipated that Robert Napier, John Watkinson and Christopher Garnett (who will have served for nine years in December 2015) will resign from the Board during the 2015/16 financial year, following an orderly handover to Polly Courtice, Steve Good and John Hirst.

# 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 2015 and any changes for the year ending 31 March 2016.

**Table 16**

Purpose and link to strategy	Operation	Maximum potential value as % of base fee	Performance metrics	Changes for 2015/16
<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	No changes are proposed for 2015/16.
<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 all less than 1% of base fees.	

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 Independent Non-Executive Directors' costs are charged to the Company.

## Outcomes in 2014/15

Table 17: Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration AWS £				Total remuneration - other AWG companies £				Total remuneration all AWG £					
	2013/14		2014/15		2013/14		2014/15		2013/14		2014/15		2013/14	2014/15
	Fees	Benefits <sup>2</sup>	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Total	Total
Sir Adrian Montague <sup>1</sup>	240,000	1,464	180,000	1,177	160,000	976	120,000	785	400,000	2,440	300,000	1,962	402,440	301,961
Stephen Billingham	-	-	17,532	-	-	-	-	-	-	-	17,532	-	-	17,532
Christopher Garnett <sup>3</sup>	40,833	194	46,970	358	-	-	-	-	40,833	194	46,970	358	41,027	47,328
Robert Napier <sup>4</sup>	50,833	1,157	113,580	571	-	-	30,000	-	50,833	1,157	143,580	571	51,990	144,151
John Watkinson <sup>5</sup>	40,833	356	46,970	271	-	-	-	-	40,833	356	46,970	271	41,189	47,241
Paul Whittaker <sup>6</sup>	21,032	-	46,970	-	-	-	-	-	21,032	-	46,970	-	21,032	46,970
<b>Total Non-Executive Directors<sup>7</sup></b>	<b>393,531</b>	<b>3,171</b>	<b>452,022</b>	<b>2,377</b>	<b>160,000</b>	<b>976</b>	<b>150,000</b>	<b>785</b>	<b>553,531</b>	<b>4,147</b>	<b>602,022</b>	<b>3,162</b>	<b>557,678</b>	<b>605,183</b>

<sup>1</sup> Sir Adrian Montague stepped down as Chairman on 21 January 2015. In accordance with the notice period in his letter of appointment, he was paid until 31 March 2015.

<sup>2</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>3</sup> Christopher Garnett's fees were increased from 21 January 2015 to reflect his increased responsibilities as Senior Independent Director, replacing Robert Napier.

<sup>4</sup> Robert Napier held the post of Chairman between 22 January and 31 March 2015. His fees for the year reflect his period as Chairman and also his additional fees for chairing Audit, Remuneration and Nomination Committees.

<sup>5</sup> John Watkinson's fees were increased from 21 January 2015 to reflect his increased responsibilities as Chair of the Nomination Committee, replacing Robert Napier.

<sup>6</sup> Paul Whittaker was appointed on 14 October 2013. His fees were increased from 21 January 2015 to reflect his increased responsibilities as Chair of the Remuneration Committee, replacing Robert Napier.

<sup>7</sup> Polly Courtice, Steve Good and John Hirst were appointed as Independent Non-Executive Directors on 1 April 2015. As they did not receive remuneration in respect of the 2014/15 year, they are not included in this table.

## REMUNERATION REPORT

### Fees

As explained in the Nomination Committee Report, Robert Napier was appointed Chairman for the period 22 January to 31 March 2015. During this period, he was paid £85,000 to reflect his responsibilities as Chairman. He also received an additional £30,000 for chairing the Audit, Nomination and Remuneration Committees between 1 April 2014 and 21 January 2015. On the appointment of Stephen Billingham as Chairman on 1 April 2015, Robert Napier's fees reverted to £45,000.

Fees for Stephen Billingham were increased to £55,000 from 21 January 2015, to reflect his additional responsibilities as Chair of the Audit Committee.

Based on publicly available benchmark data on levels of remuneration for similar roles, the Board, on the recommendation of the Committee, approved a fee of £300,000 for Stephen Billingham as Non-Executive Chairman from 1 April 2015.

Fees for Christopher Garnett were increased from £45,000 to £55,000 from 21 January 2015, to reflect his increased responsibilities as Senior Independent Director, replacing Robert Napier.

Fees for John Watkinson were increased from £45,000 to £55,000 from 21 January 2015, to reflect his additional responsibility for chairing the Nomination Committee. On the appointment of Stephen Billingham as Chairman of the Nomination Committee on 1 April 2015, John Watkinson's fees reverted to £45,000.

Fees for Paul Whittaker were increased from £45,000 to £55,000 from 21 January 2015, to reflect his additional responsibility for chairing the Remuneration Committee.

In line with the review of fees carried out by the Committee in 2013/14, and based on publicly available benchmark data on levels of remuneration for similar roles, fees for Polly Courtice, Steve Good and John Hirst were set at £45,000 on their appointment as Independent Non-Executive Directors from 1 April 2015.

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 for all changes to fees agreed during the year.

### 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 2014/15 performance year were discussed at Remuneration Committee meetings held on 2 April 2014, 23 May 2014, 21 July 2014, 3 September 2014, 26 November 2014, 21 January 2015 and 31 March 2015. 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 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 Executive Directors for the forthcoming financial year
- Approval of personal objectives for Peter Simpson 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.

In addition to these activities, and as described earlier in this Report, the Committee also:

- Undertook a review of incentive design and remuneration packages for Executive Directors, to ensure that incentives were simplified and aligned to the key priorities for the Asset Management Period (2015-2020), and that packages remained competitive and appropriate against the market
- Made recommendations to the Board on the appropriate level of remuneration for Robert Napier and Stephen Billingham on taking up the role of Chairman, and the fees for Polly Courtice, Steve Good and John Hirst on their appointment as Independent Non-Executive Directors from 1 April 2015.

### Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the external Board evaluation process, detailed on page 77. No material shortcomings in the operation of the Committee were highlighted. At its meeting on 1 April 2015, the Committee considered the report and agreed to the following actions:

- Review additional external benchmarking data
- Review the skill set of the Committee.

### External advisors

During 2014/15, to support the remuneration review, the Committee took advice from the external remuneration consultant Kepler, who was appointed by the Committee following a competitive tendering exercise.

Kepler does not provide any other services to the Group.

### Remuneration policy in 2015/16

Table 2 describes the changes proposed for 2015/16, following the extensive review of incentive design carried out by the Committee in 2014/15.

Given the level of uncertainty and structural change affecting the water industry, the Committee is mindful that remuneration policy will need to be kept under careful review to ensure it remains appropriate for the longer term.

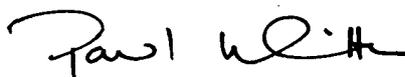
### Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee.

The Report was approved by the Board on 29 May 2015 and signed on its behalf.

#### Paul Whittaker

Chairman of the Remuneration Committee  
29 May 2015



# 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 2015.

## 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 Company's ownership structure is detailed on page 14.

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 68. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on pages 36 to 38.

## 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 73 to 79 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 page 73 of the Corporate Governance Report, together with the disclosures that 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 on page 67 of the Strategic Report and in note 18 of the financial statements.

## Principal activities

The Company provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 908 million litres of used water per day from 2.6 million homes and businesses, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

## Results and dividends

The Group income statement on page 123 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 141.

## Health and safety

Details are included on pages 43 to 44.

## Directors

Current Directors of the Company are listed on pages 70 to 72 together with their biographical details. Details of Board changes that took place during the year are detailed on page 74.

## 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 (which 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. Part of the funds raised in 2014/15 directly supported the work of WaterAid in two countries, Nepal and Liberia, where we are proud to have close links to the work of the local WaterAid teams. 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 £523,804 for WaterAid (2014:

£506,763) - the highest amount ever raised by the business. No political donations were made during the year (2014: £nil).

## Research and development

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

## Customers

The Company values the opportunity to engage with customers across its region. This engagement takes a number of forms including satisfaction surveys, focus groups and customer workshops.

The Company's Business Plan for 2015-2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services. In total, the views of 50,000 customers have shaped our plan. All customers were then invited to comment on the acceptability of the 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.

In 2011 an independent Customer Engagement Forum (CEF) was formed, with members from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy. The Forum advised and challenged the Company as it engaged with customers and developed the Business Plan.

The CEF will play a continuing role during the period 2015-2020 in reviewing and challenging our performance.

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.

Excellent customer service is a high priority and the Company recognises employees who provide excellent service to customers. The Board regularly reviews the results of a range of customer service surveys. These include the newly revised quarterly SIM survey conducted by Ofwat.

## Employees

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

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

The Company has a series of policies that both inform and guide all employees on the Company's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour. The Group has a whistleblowing policy, details of which can be found in the Audit Committee Report on page 82. 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.

## DIRECTORS' REPORT

### Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 28 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 2015 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**  
Company Secretary  
29 May 2015



Registered Office:  
Lancaster House  
Lancaster Way  
Ermine Business Park  
Huntingdon  
Cambridgeshire PE29 6YJ  
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 Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Who leads us and Board of Directors sections on pages 16 and 70 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

**Claire Russell**  
Company Secretary  
29 May 2015



# ACCOUNTS

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## Group income statement

for the year ended 31 March 2015

Notes	2015			2014			
	Underlying results £m	Other items <sup>1</sup> £m	Total £m	Underlying results £m	Other items <sup>1</sup> £m	Total £m	
	<b>Continuing operations</b>						
	<b>Revenue</b>	<b>1,244.3</b>	<b>-</b>	<b>1,244.3</b>	1,214.0	-	1,214.0
	Other operating income	12.9	-	12.9	12.3	-	12.3
	Operating costs:						
	- Operating costs before depreciation and amortisation	(523.9)	-	(523.9)	(485.4)	-	(485.4)
	- Depreciation and amortisation	(280.7)	-	(280.7)	(272.0)	-	(272.0)
	- Fair value losses on energy hedges	-	(0.8)	(0.8)	-	(5.4)	(5.4)
5	Total operating costs	(804.6)	(0.8)	(805.4)	(757.4)	(5.4)	(762.8)
	<b>Operating profit</b>	<b>452.6</b>	<b>(0.8)</b>	<b>451.8</b>	468.9	(5.4)	463.5
	Finance income	4.2	192.3	196.5	4.9	192.3	197.2
	Finance costs	(274.8)	-	(274.8)	(305.9)	-	(305.9)
	Fair value (losses)/gains on derivative financial instruments	-	(212.8)	(212.8)	-	86.4	86.4
6	Net finance costs	(270.6)	(20.5)	(291.1)	(301.0)	278.7	(22.3)
	<b>Profit/(loss) before tax from continuing operations</b>	<b>182.0</b>	<b>(21.3)</b>	<b>160.7</b>	167.9	273.3	441.2
7	Tax			34.3			133.9
	<b>Profit for the year</b>			<b>195.0</b>			575.1

<sup>1</sup> Other items comprise fair value losses on derivative financial instruments and energy hedges of £213.6 million (2014: gains of £81.0 million) and intra-group interest income of £192.3 million (2014: £192.3 million).

Notes 1 to 29 are an integral part of these consolidated financial statements.

## Group statement of other comprehensive income

for the year ended 31 March 2015

Notes	2015 £m	2014 £m
	<b>195.0</b>	575.1
	<b>Profit for the year</b>	
	<b>Other comprehensive income for the year:</b>	
	<b>Items that will not be reclassified to profit or loss</b>	
21	Actuarial (losses)/gains on retirement benefit obligations	(0.1) 4.8
7	Income tax on items that will not be reclassified	- (1.1)
	<b>(0.1)</b>	3.7
	<b>Items that may be reclassified subsequently to profit or loss</b>	
	Cash flow hedges	(75.5) 4.7
7	Income tax on items that may be reclassified	15.1 (1.8)
	<b>(60.4)</b>	2.9
	<b>134.5</b>	581.7
	<b>Total comprehensive income for the year</b>	

## Group balance sheet

at 31 March 2015  
Company number 0266656

Notes	2015 £m	2014 £m	1 April 2013 £m	
<b>Non-current assets</b>				
11	Intangible assets	116.9	85.6	76.2
12	Property, plant and equipment	9,447.0	9,333.4	9,177.0
13	Investments	1,602.6	1,602.6	1,602.6
18	Derivative financial instruments	94.6	74.0	138.2
		<b>11,261.1</b>	<b>11,095.6</b>	<b>10,994.0</b>
<b>Current assets</b>				
14	Inventories	9.0	10.6	9.9
15	Trade and other receivables	514.4	479.9	507.6
	Investments - money market deposits	110.0	67.9	116.4
	Cash and cash equivalents	647.5	619.5	961.6
18	Derivative financial instruments	35.0	30.4	145.2
		<b>1,315.9</b>	<b>1,208.3</b>	<b>1,740.7</b>
	<b>Total assets</b>	<b>12,577.0</b>	<b>12,303.9</b>	<b>12,734.7</b>
<b>Current liabilities</b>				
16	Trade and other payables	(473.9)	(420.7)	(487.5)
	Current tax liabilities	(129.3)	(118.8)	(94.1)
17	Borrowings	(357.1)	(168.1)	(770.8)
18	Derivative financial instruments	(11.0)	(13.5)	(112.8)
19	Provisions for liabilities	(1.4)	(1.2)	(1.6)
		<b>(972.7)</b>	<b>(722.3)</b>	<b>(1,466.8)</b>
<b>Non-current liabilities</b>				
17	Borrowings	(6,049.6)	(6,031.8)	(5,750.9)
18	Derivative financial instruments	(867.1)	(571.2)	(572.6)
20	Deferred tax liabilities	(1,059.1)	(1,121.1)	(1,274.5)
21	Retirement benefit obligations	(38.4)	(60.7)	(86.1)
19	Provisions for liabilities	(9.6)	(8.9)	(11.1)
16	Other non-current liabilities	(561.2)	(530.6)	(502.7)
		<b>(8,585.0)</b>	<b>(8,324.3)</b>	<b>(8,197.9)</b>
	<b>Total liabilities</b>	<b>(9,557.7)</b>	<b>(9,046.6)</b>	<b>(9,664.7)</b>
	<b>Net assets</b>	<b>3,019.3</b>	<b>3,257.3</b>	<b>3,070.0</b>
<b>Capital and reserves</b>				
22	Share capital	10.0	10.0	10.0
	Revaluation reserve	2,560.2	2,560.2	2,560.2
	Retained earnings	529.1	706.7	522.3
	Hedging reserve	(80.0)	(19.6)	(22.5)
	<b>Total equity</b>	<b>3,019.3</b>	<b>3,257.3</b>	<b>3,070.0</b>

Notes 1 to 29 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 29 May 2015 and signed on its behalf by:

**Peter Simpson**  
Chief Executive

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




# Company balance sheet

at 31 March 2015  
Company number 0266656

Notes	2015 £m	2014 £m	1 April 2013 £m	
<b>Non-current assets</b>				
11	Intangible assets	116.9	85.6	76.2
12	Property, plant and equipment	9,447.0	9,333.4	9,177.0
13	Investments	1,602.6	1,602.6	1,602.6
18	Derivative financial instruments	94.6	74.0	138.2
		<b>11,261.1</b>	<b>11,095.6</b>	<b>10,994.0</b>
<b>Current assets</b>				
14	Inventories	9.0	10.6	9.9
15	Trade and other receivables	514.4	479.8	507.5
	Investments – money market deposits	110.0	67.9	116.4
	Cash and cash equivalents	646.3	618.3	924.2
18	Derivative financial instruments	35.0	30.4	145.2
		<b>1,314.7</b>	<b>1,207.0</b>	<b>1,703.2</b>
	<b>Total assets</b>	<b>12,575.8</b>	<b>12,302.6</b>	<b>12,697.2</b>
<b>Current liabilities</b>				
16	Trade and other payables	(519.3)	(465.6)	(495.7)
	Current tax liabilities	(129.3)	(118.8)	(94.1)
17	Borrowings	(357.1)	(168.1)	(770.8)
18	Derivative financial instruments	(11.0)	(13.5)	(112.8)
19	Provisions for liabilities	(1.4)	(1.2)	(1.6)
		<b>(1,018.1)</b>	<b>(767.2)</b>	<b>(1,475.0)</b>
<b>Non-current liabilities</b>				
17	Borrowings	(6,049.6)	(6,031.8)	(5,750.9)
18	Derivative financial instruments	(867.1)	(571.2)	(572.6)
20	Deferred tax liabilities	(1,059.1)	(1,121.1)	(1,274.5)
21	Retirement benefit obligations	(38.4)	(60.7)	(86.1)
19	Provisions for liabilities	(9.6)	(8.9)	(11.1)
16	Other non-current liabilities	(561.2)	(530.6)	(502.7)
		<b>(8,585.0)</b>	<b>(8,324.3)</b>	<b>(8,197.9)</b>
	<b>Total liabilities</b>	<b>(9,603.1)</b>	<b>(9,091.5)</b>	<b>(9,672.9)</b>
	<b>Net assets</b>	<b>2,972.7</b>	<b>3,211.1</b>	<b>3,024.3</b>
<b>Capital and reserves</b>				
22	Share capital	10.0	10.0	10.0
	Revaluation reserve	2,560.2	2,560.2	2,560.2
	Retained earnings	482.5	660.5	476.6
	Hedging reserve	(80.0)	(19.6)	(22.5)
	<b>Total equity</b>	<b>2,972.7</b>	<b>3,211.1</b>	<b>3,024.3</b>

Notes 1 to 29 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 May 2015 and signed on its behalf by:

**Peter Simpson**  
Chief Executive

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




## Group statement of changes in equity

for the year ended 31 March 2015

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
<b>For the year ended 31 March 2015</b>					
<b>At 1 April 2014</b>	<b>10.0</b>	<b>2,560.2</b>	<b>706.7</b>	<b>(19.6)</b>	<b>3,257.3</b>
Profit for the year	-	-	195.0	-	195.0
Other comprehensive income for the year	-	-	(0.1)	-	(0.1)
Losses on cash flow energy hedges	-	-	-	(8.6)	(8.6)
Amounts transferred to the income statement	-	-	-	7.9	7.9
Losses on cash flow hedges	-	-	-	(101.5)	(101.5)
Exchange movement on debt in cash flow hedges	-	-	-	26.7	26.7
Deferred tax on hedges	-	-	-	15.1	15.1
<i>Total comprehensive income for the year</i>	-	-	194.9	(60.4)	134.5
Dividends	-	-	(372.5)	-	(372.5)
<b>At 31 March 2015</b>	<b>10.0</b>	<b>2,560.2</b>	<b>529.1</b>	<b>(80.0)</b>	<b>3,019.3</b>
<b>For the year ended 31 March 2014</b>					
<b>At 1 April 2013</b>	<b>10.0</b>	<b>2,560.2</b>	<b>522.3</b>	<b>(22.5)</b>	<b>3,070.0</b>
Profit for the year	-	-	575.1	-	575.1
Other comprehensive income for the year	-	-	3.7	-	3.7
Losses on cash flow energy hedges	-	-	-	(4.9)	(4.9)
Amounts transferred to the income statement	-	-	-	6.0	6.0
Losses on cash flow hedges	-	-	-	(18.9)	(18.9)
Exchange movement on debt in cash flow hedges	-	-	-	22.5	22.5
Deferred tax on hedges	-	-	-	(1.8)	(1.8)
<i>Total comprehensive income for the year</i>	-	-	578.8	2.9	581.7
Dividends	-	-	(394.4)	-	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>2,560.2</b>	<b>706.7</b>	<b>(19.6)</b>	<b>3,257.3</b>

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the Group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

## Company statement of changes in equity

for the year ended 31 March 2015

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
<b>For the year ended 31 March 2015</b>					
<b>At 1 April 2014</b>	<b>10.0</b>	<b>2,560.2</b>	<b>660.5</b>	<b>(19.6)</b>	<b>3,211.1</b>
Profit for the year	-	-	194.6	-	194.6
Other comprehensive income for the year	-	-	(0.1)	-	(0.1)
Losses on cash flow energy hedges	-	-	-	(8.6)	(8.6)
Amounts transferred to the income statement	-	-	-	7.9	7.9
Losses on cash flow hedges	-	-	-	(101.5)	(101.5)
Exchange movement on debt in cash flow hedges	-	-	-	26.7	26.7
Deferred tax on hedges	-	-	-	15.1	15.1
Total comprehensive income for the year	-	-	194.5	(60.4)	134.1
Dividends	-	-	(372.5)	-	(372.5)
<b>At 31 March 2015</b>	<b>10.0</b>	<b>2,560.2</b>	<b>482.5</b>	<b>(80.0)</b>	<b>2,972.7</b>
<b>For the year ended 31 March 2014</b>					
<b>At 1 April 2013</b>	<b>10.0</b>	<b>2,560.2</b>	<b>476.6</b>	<b>(22.5)</b>	<b>3,024.3</b>
Profit for the year	-	-	574.6	-	574.6
Other comprehensive income for the year	-	-	3.7	-	3.7
Losses on cash flow energy hedges	-	-	-	(4.9)	(4.9)
Amounts transferred to the income statement	-	-	-	6.0	6.0
Losses on cash flow hedges	-	-	-	(18.9)	(18.9)
Exchange movement on debt in cash flow hedges	-	-	-	22.5	22.5
Deferred tax on hedges	-	-	-	(1.8)	(1.8)
Total comprehensive income for the year	-	-	578.3	2.9	581.2
Dividends	-	-	(394.4)	-	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>2,560.2</b>	<b>660.5</b>	<b>(19.6)</b>	<b>3,211.1</b>

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the Group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

## Group and Company cash flow statements

for the year ended 31 March 2015

Notes	Group		Company		
	2015 £m	2014 £m	2015 £m	2014 £m	
	<b>Cash flows from:</b>				
	<b>Operating activities</b>				
(a)	Cash generated from operations	708.1	691.9	708.1	691.9
	Income tax received	0.5	-	0.5	-
	<b>Net cash flows from operating activities</b>	<b>708.6</b>	<b>691.9</b>	<b>708.6</b>	<b>691.9</b>
	<b>Investing activities</b>				
	Purchase of property, plant and equipment	(341.3)	(401.9)	(341.3)	(401.9)
	Purchase of intangible assets	(51.6)	(28.3)	(51.6)	(28.3)
	Grants and contributions received	32.8	28.8	32.8	28.8
	Proceeds from sale of property, plant and equipment	1.8	1.7	1.8	1.7
	<b>Net cash used in investing activities</b>	<b>(358.3)</b>	<b>(399.7)</b>	<b>(358.3)</b>	<b>(399.7)</b>
	<b>Financing activities</b>				
	Interest received	196.4	245.1	196.4	244.9
	Interest paid	(215.7)	(229.6)	(215.7)	(229.6)
	Issue costs paid	(2.1)	(3.5)	(2.1)	(3.5)
	Interest element of finance lease rental payments	(1.6)	(2.0)	(1.6)	(2.0)
	Increase in amounts borrowed	185.0	403.8	185.0	403.8
	Repayment of amounts borrowed	(60.8)	(650.8)	(60.8)	(650.8)
	Capital element of finance lease rental payments	(8.9)	(4.0)	(8.9)	(4.0)
	Movement on inter-company account	-	-	-	36.4
	(Increase)/decrease in short-term bank deposits	(42.1)	48.5	(42.1)	48.5
	Dividends paid to owners of the parent	(372.5)	(441.8)	(372.5)	(441.8)
	<b>Net cash used in financing activities</b>	<b>(322.3)</b>	<b>(634.3)</b>	<b>(322.3)</b>	<b>(598.1)</b>
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>28.0</b>	<b>(342.1)</b>	<b>28.0</b>	<b>(305.9)</b>
	Cash and cash equivalents at the beginning of the year	619.5	961.6	618.3	924.2
(c)	<b>Cash and cash equivalents at 31 March</b>	<b>647.5</b>	<b>619.5</b>	<b>646.3</b>	<b>618.3</b>

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

## Notes to the Group and Company cash flow statement

for the year ended 31 March 2015

### (a) Cash generated by operations

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Operating profit	451.8	463.5	451.8	463.5
Adjustments for:				
Amortisation of deferred grants and contributions	(12.9)	(12.3)	(12.9)	(12.3)
Depreciation and amortisation	280.7	272.0	280.7	272.0
Profit on sale of property, plant and equipment	(0.7)	(1.2)	(0.7)	(1.2)
Difference between pension charge and cash contributions	(24.5)	(23.7)	(24.5)	(23.7)
Fair value losses on energy hedges	0.8	5.4	0.8	5.4
Net movement in provisions	(0.2)	(0.2)	(0.2)	(0.2)
Working capital:				
Decrease/(increase) in inventories	1.6	(0.7)	1.6	(0.7)
Increase in trade and other receivables	(34.4)	(20.4)	(34.4)	(20.4)
Increase in trade and other payables	45.9	9.5	45.9	9.5
	13.1	(11.6)	13.1	(11.6)
<b>Cash generated by operations</b>	<b>708.1</b>	<b>691.9</b>	<b>708.1</b>	<b>691.9</b>

For the year ended 31 March 2015 and 31 March 2014 all the above cash flows related to continuing operations.

### (b) Management of liquid resources

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

### (c) Analysis of net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Total £m
<b>Group</b>					
At 1 April 2014	619.5	67.9	(6,199.9)	(468.3)	(5,980.8)
Cash flows	28.0	42.1	(158.5)	16.6	(71.8)
Interest	-	-	2.2	(1.4)	0.8
Issue costs relating to new borrowings	-	-	2.1	-	2.1
Amortisation of issue costs	-	-	(1.8)	-	(1.8)
Indexation of borrowings and Retail Price Index (RPI) swaps	-	-	(54.8)	(17.0)	(71.8)
Fair value gains and losses	-	-	(22.8)	(257.0)	(279.8)
Exchange movements	-	-	26.8	-	26.8
<b>At 31 March 2015</b>	<b>647.5</b>	<b>110.0</b>	<b>(6,406.7)</b>	<b>(727.1)</b>	<b>(6,376.3)</b>
Balances at 31 March 2015 comprise:					
Non-current assets	-	-	-	94.6	94.6
Current assets	647.5	110.0	-	35.0	792.5
Current liabilities	-	-	(357.1)	(9.0)	(366.1)
Non-current liabilities	-	-	(6,049.6)	(847.7)	(6,897.3)
<b>Net debt</b>	<b>647.5</b>	<b>110.0</b>	<b>(6,406.7)</b>	<b>(727.1)</b>	<b>(6,376.3)</b>

<sup>1</sup> Derivative financial instruments excludes the liability of fair value of energy derivatives of £21.4 million (2014: £12.0 million) as these are not classified as part of net debt.

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Total £m
<b>Company</b>					
At 1 April 2014	618.3	67.9	(6,199.9)	(468.3)	(5,982.0)
Cash flows	28.0	42.1	(158.5)	16.6	(71.8)
Interest	-	-	2.2	(1.4)	0.8
Issue costs relating to new borrowings	-	-	2.1	-	2.1
Amortisation of issue costs	-	-	(1.8)	-	(1.8)
Indexation of borrowings and RPI swaps	-	-	(54.8)	(17.0)	(71.8)
Fair value gains and losses	-	-	(22.8)	(257.0)	(279.8)
Exchange movements	-	-	26.8	-	26.8
<b>At 31 March 2015</b>	<b>646.3</b>	<b>110.0</b>	<b>(6,406.7)</b>	<b>(727.1)</b>	<b>(6,377.5)</b>
Balances at 31 March 2015 comprise:					
Non-current assets	-	-	-	94.6	94.6
Current assets	646.3	110.0	-	35.0	791.3
Current liabilities	-	-	(357.1)	(9.0)	(366.1)
Non-current liabilities	-	-	(6,049.6)	(847.7)	(6,897.3)
<b>Net debt</b>	<b>646.3</b>	<b>110.0</b>	<b>(6,406.7)</b>	<b>(727.1)</b>	<b>(6,377.5)</b>

<sup>1</sup> Derivative financial instruments excludes the liability of fair value of energy derivatives of £21.4 million (2014: £12.0 million) as these are not classified as part of net debt.

Non-cash movements comprise indexation of index-linked loan stock, indexation of RPI swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues, and amortisation of fair value adjustments.

For both Group and Company, included within cash and cash equivalents above are £434.9 million (2014: £524.9 million) of short-term deposits maturing within three months, which are included in the heading 'cash and cash equivalents' in the balance sheet.

# Notes to the Group financial statements

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## 1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have all been consistently applied to all the years presented.

### a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' showing reconciliations for comparative years between UK GAAP and IFRS are shown in note 29.

Underlying profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives, which introduces volatility into the accounts. In order to show the position of the Anglian Water Services Financing (AWSF) Group the intra-group interest receivable from Anglian Water Services Holdings Limited has also been excluded. The AWSF Group comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

### b) 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.

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.

### c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement.

### d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

### e) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- i Water and sewerage services - revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.
- ii Interest income - recognised on a time-proportion basis using the effective interest method.
- iii Dividend income - recognised when the right to receive payment is established.

### f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised as equipment or intangible and is written off over the expected useful life of the asset.

### g) Exceptional items

Exceptional items are one-off items that individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

### h) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### i) 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.

#### j) Intangible assets

Intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years.

#### k) Property, plant and equipment

Property, plant and equipment comprises:

- i. Land and buildings – comprising land and non-operational buildings.
- ii. Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- iii. Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage where not classed as infrastructure along with associated fixed plant.
- iv. Vehicles, mobile plant and equipment.
- v. Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Items of property, plant and equipment that are transferred to the Group from customers or developers are initially recognised at fair value. The corresponding credit is recorded as deferred income and released to other income over the expected useful lives of the related assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

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 useful lives, which are primarily as follows:

Non-operational buildings	30–60 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant	12–40 years
Vehicles and plant and equipment	3–10 years

Property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### l) Grants and contributions

Grants and contributions comprise government grants, infrastructure and connection charges, sewer adoption charges, deficit contributions for requisitioned water and wastewater infrastructure under the Water Acts, non-domestic deficit contributions, other capital and revenue contributions, and contributions for infrastructure diversions.

Capital grants and contributions are credited to a deferral account within creditors and are released to other income evenly over the expected useful life of the related assets.

Deficit contributions are also credited to a deferral account within creditors, and are recognised as other income in line with the expected expenditure they are intended to compensate.

Contributions for diversion are allocated between compensation for the loss of the asset given up, treated in accordance with the asset disposal policy, and capital contribution towards the cost of the replacement asset according to the nature of the diversion.

#### m) Leased assets

Leases of property, plant and equipment that transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments, with the corresponding rental obligations, net of finance charges, shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the interest element being charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rental costs arising under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

For the purpose of lease classification, the land and buildings elements of a lease are considered separately.

# Notes to the Group financial statements continued

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## 1 Accounting policies continued

### n) Investments

After initial recognition at cost (being the fair value of the consideration paid), investments classified as held for trading or available for sale are measured at fair value, with gains or losses recognised in income or equity respectively. When an available-for-sale investment is disposed of, or impaired, the gain or loss previously recognised in equity is taken to the income statement.

Other investments are classified as held to maturity when the Group has the positive intention and ability to hold to maturity and there is a set maturity date. Investments held for an undefined period are excluded from this classification. Such investments, and those held to maturity, are subsequently measured at amortised cost using the effective interest method, with any gains or losses being recognised in the income statement.

### o) Inventories

Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### p) Bad debts

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

### q) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts.

### r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### s) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the Group's risk management policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

At the inception of the hedging transaction the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### *i Fair value hedge*

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'Fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge no longer meets the criteria for hedge accounting, the hedged item is not adjusted for any subsequent movements in the hedged risk. The amount that the hedged item was adjusted by will be amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

#### *ii Cash flow hedge*

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### *iii Derivatives that do not qualify for hedge accounting*

Certain derivative instruments, principally index-linked swaps and swaptions, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

t) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The Group's policy on specific areas is as follows:

i) *Onerous lease costs*

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

ii) *Closure costs*

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

iii) *Redundancy costs*

Redundancy costs are charged to profit and loss 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.

u) Pensions

i) *Defined benefit schemes*

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit 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 current service cost, which is the increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

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.

ii) *Defined contribution schemes*

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

v) *New standards, amendments and interpretations not yet adopted*

At the date of approval of these financial statements the following Standards were in issue but not yet effective:

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. This Standard has not yet been endorsed by the EU.

IFRS 15 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Notes to the Group financial statements continued

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### 2 Key assumptions and significant judgements

The Group uses estimates and makes judgements in the preparation of its financial statements. The areas where the most judgement is required are highlighted below.

#### *i Measured income accrual*

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the period end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff, which is calculated based on 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 £5.6 million).

#### *ii Bad debts*

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to judgement.

#### *iii Complex supplier arrangements*

Anglian Water has a collaborative arrangement with six of its contractors, known as the @oneAlliance, which was formed to deliver a significant part of the Anglian Water capital investment programme. While each partner has a separate framework agreement with Anglian Water, a gainshare payment scheme is operated on a programme pool basis to reward partners for outperformance. According to the contract, the gainshare payment is payable on completion of each scheme to the value of outturn measured against target cost. This value is divided between Anglian Water and the six partners in bandings relating to the percentage of outperformance as per the contract.

To calculate the liability of each partner's share to date, value of work done is defined by measuring cost to date against the forecast final outturn. This is then applied to the forecast final gainshare position to define the value of gainshare earned to date. Gainshare payments are made annually.

#### *iv Pensions*

The Group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under IAS 19 'Employee Benefits' the Group has recognised an actuarial loss of £0.1 million (2014: gain of £4.8 million). The main assumptions are set out in note 21 of the financial statements.

#### *v Property, plant and equipment*

The property, plant and equipment used in the Group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

#### *vi Financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The Group uses its judgement to select the most appropriate valuation method for each instrument to estimate expected future cash flows, and apply discount rates that reflect counterparty credit risk. The valuation techniques are described in detail in note 18.

#### *vii Taxation*

The Group's tax charge is based on the profit for the period and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items, which will only be resolved once finally agreed with the tax authorities.

### 3 Segmental information

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

The Group's revenue is wholly generated from within the United Kingdom.

### 4 Other operating income

Other operating income comprises the amortisation of grants and contributions.

**5 Operating costs**

	2015 £m	2014 £m
Raw materials and consumables	17.8	17.1
Staff costs (see note 8)	180.8	169.2
Charge for bad and doubtful debts	33.1	32.4
Operating lease rentals		
Properties	2.8	2.2
Plant and equipment	0.3	0.5
Research and development expenditure	0.9	0.1
Contribution to the Anglian Water Assistance Fund	0.4	0.6
Other operating costs	338.6	311.6
Own work capitalised	(50.1)	(47.1)
Fair value losses on energy hedges	0.8	5.4
Profit on sale of fixed assets <sup>1</sup>	(0.7)	(1.2)
<b>Operating costs before depreciation and amortisation</b>	<b>524.7</b>	<b>490.8</b>
Depreciation of property, plant and equipment	256.2	250.7
Amortisation of intangible assets	24.5	21.3
Depreciation and amortisation	280.7	272.0
<b>Operating costs</b>	<b>805.4</b>	<b>762.8</b>

<sup>1</sup> The profit on sale of fixed assets relates to various sales of surplus land and assets.

During the year, the Group obtained the following services from the Company's auditors:

	2015 £m	2014 £m
Fees payable to the Company's auditors for the audit of the 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	0.1
Other non-audit services	0.2	0.3
	<b>0.5</b>	<b>0.6</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 £34,200 (2014: £43,000) 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 pensions, IFRS advice and taxation advice.

## Notes to the Group financial statements continued

### 6 Net finance costs

	2015 £m	2014 £m
<b>Finance income</b>		
Interest income on short-term bank deposits	4.2	4.9
Other interest receivable	192.3	192.3
	<b>196.5</b>	197.2
<b>Finance costs</b>		
Interest payable on other loans including financing expenses	(215.6)	(225.1)
Indexation	(71.8)	(98.0)
Amortisation of issue costs	(1.8)	(2.5)
Interest payable on finance leases	(1.6)	(1.9)
Unwinding of discount on provisions	(0.5)	0.4
Defined benefit pension scheme interest charge	(2.1)	(3.1)
Total finance costs	(293.4)	(330.2)
Less: amounts capitalised on qualifying assets	18.6	24.3
	<b>(274.8)</b>	(305.9)
<b>Fair value (losses)/gains on derivative financial instruments</b>		
Hedge ineffectiveness on cash flow hedges	(0.6)	0.1
Hedge ineffectiveness on fair value hedges	1.8	(0.7)
Restructuring costs on derivatives	(4.8)	-
Derivative financial instruments not designated as hedges	(209.2)	87.0
	<b>(212.8)</b>	86.4
<b>Net finance costs</b>	<b>(291.1)</b>	<b>(22.3)</b>

## 7 Taxation

	2015 £m	2014 £m
<b>Current tax:</b>		
In respect of the current year	25.5	24.5
Adjustments in respect of prior periods	(12.9)	(2.1)
<b>Total current tax charge</b>	<b>12.6</b>	<b>22.4</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(27.6)	37.6
Adjustments in respect of prior periods	(19.3)	(5.9)
Reduction in corporation tax rate	-	(188.0)
<b>Total deferred tax credit</b>	<b>(46.9)</b>	<b>(156.3)</b>
<b>Total tax credit on profit</b>	<b>(34.3)</b>	<b>(133.9)</b>

The current tax adjustment in respect of previous periods relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of previous periods, for both 2015 and 2014, relate to adjustments to prior year capital allowance claims.

The prior year reduction in corporation tax rate reflects the change in the UK corporation tax rate from 23 per cent to 21 per cent that was effective from 1 April 2014, and to 20 per cent from 1 April 2015, resulting in all relevant deferred tax balances being re-measured.

The tax credit on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 21 per cent (2014: 23 per cent) to the profit before tax from continuing operations as follows:

	2015 £m	2014 £m
Profit before tax	160.7	441.2
Profit before tax at the standard rate of corporation tax in the UK of 21 per cent (2014: 23 per cent)	33.7	101.5
Effects of:		
Items not deductible for tax purposes	4.7	5.2
Items not taxable	(0.1)	(0.3)
Group relief utilised	(40.4)	(44.3)
Reduction in corporation tax rate	-	(188.0)
Adjustments in respect of prior periods	(32.2)	(8.0)
<b>Tax credit for the year</b>	<b>(34.3)</b>	<b>(133.9)</b>

In addition to the tax credited to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

	2015 £m	2014 £m
<b>Deferred tax:</b>		
Defined benefit pension schemes	-	1.3
Cash flow hedges	(15.1)	1.1
Reduction in corporation tax rate - pensions	-	(0.2)
Reduction in corporation tax rate - cash flow hedges	-	0.7
<b>Total deferred tax (credit)/charge</b>	<b>(15.1)</b>	<b>2.9</b>
<b>Total tax (credit)/charge recognised in other comprehensive income</b>	<b>(15.1)</b>	<b>2.9</b>

## Notes to the Group financial statements continued

### 8 Employee information and Directors' emoluments

(a) Employee information	2015 £m	2014 £m
<b>Staff costs</b>		
Wages and salaries	152.0	141.9
Social security costs	14.2	13.0
Pension costs - defined contribution (see note 21)	6.3	5.7
Pension costs - defined benefit (see note 21)	8.3	8.6
	<b>180.8</b>	<b>169.2</b>

Staff costs for the year ended 31 March 2015 include £48.6 million (2014: £45.1 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors):

	2015	2014
Water Services	645	664
Water Recycling Services	1,611	1,578
Customer Services	798	781
Asset Management and other	1,134	1,043
	<b>4,188</b>	<b>4,066</b>

(b) Directors' emoluments	2015 £'000	2014 £'000
Aggregate emoluments	2,240	2,373
Pension costs - defined contribution	-	75
Benefits received under long-term incentive plans	650	832

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 (2014: one Director) under a defined benefit pension scheme. Retirement benefits are accruing to four Directors (2014: 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

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £3,000 (2014: £3,000).

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 86.

	2015 £'000	2014 £'000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	1,051	1,108
Accrued defined benefit at year end	64	59

### 9 Profit of the parent Company

The Company has not presented its own income statement as permitted by section 408 of the Companies Act. The profit for the year, dealt with in the financial statements of the Company, is £194.6 million (2014: £574.6 million).

## 10 Dividends

Interim dividends paid during the year

	2015 £m	2014 £m
Previous year final dividend	111.0	95.0
Current year interim dividend	69.2	107.1
Dividend paid by the Company and retained within the Anglian Water Services Financing Group	191.8	191.8
Dividend committed to be paid by the Company and retained within the Anglian Water Services Financing Group	0.5	0.5
	<b>372.5</b>	<b>394.4</b>

A dividend of £192.3 million (2014: £192.3 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 (2014: £1,602.6 million). The prior year dividend committed of £0.5 million was paid in April 2014.

The Directors have proposed a final dividend for the year ended 31 March 2015 of £10.0 per share, which is a total of £100.0 million. This distribution has not been accounted for within the 2015 financial statements as it was proposed and approved after the year end.

## 11 Intangible assets

	Group and Company		
	Computer software £m	Internally generated other £m	Total £m
<b>Cost</b>			
At 1 April 2013	287.1	77.8	<b>364.9</b>
Additions	19.6	11.1	<b>30.7</b>
Disposals	(3.3)	-	<b>(3.3)</b>
<b>At 31 March 2014</b>	<b>303.4</b>	<b>88.9</b>	<b>392.3</b>
Additions	37.2	18.6	<b>55.8</b>
<b>At 31 March 2015</b>	<b>340.6</b>	<b>107.5</b>	<b>448.1</b>
<b>Accumulated amortisation</b>			
At 1 April 2013	(231.3)	(57.4)	<b>(288.7)</b>
Charge for the year	(14.4)	(6.9)	<b>(21.3)</b>
Disposals	3.3	-	<b>3.3</b>
<b>At 31 March 2014</b>	<b>(242.4)</b>	<b>(64.3)</b>	<b>(306.7)</b>
Charge for the year	(16.1)	(8.4)	<b>(24.5)</b>
<b>At 31 March 2015</b>	<b>(258.5)</b>	<b>(72.7)</b>	<b>(331.2)</b>
<b>Net book amount</b>			
<b>At 31 March 2015</b>	<b>82.1</b>	<b>34.8</b>	<b>116.9</b>
At 31 March 2014	61.0	24.6	85.6

Internally generated intangible assets mainly comprise capitalised development expenditure.

## Notes to the Group financial statements continued

### 12 Property, plant and equipment

	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	42.7	6,101.4	4,856.7	703.7	470.0	12,174.5
Additions	-	-	-	-	407.2	407.2
Transfers on commissioning	0.7	105.3	265.1	68.9	(440.0)	-
Disposals	-	-	(0.1)	(16.8)	-	(16.9)
<b>At 31 March 2014</b>	<b>43.4</b>	<b>6,206.7</b>	<b>5,121.7</b>	<b>755.8</b>	<b>437.2</b>	<b>12,564.8</b>
Additions	-	-	-	-	370.7	370.7
Transfers on commissioning	1.0	148.2	240.2	49.9	(439.3)	-
Disposals	(0.3)	-	(2.2)	(9.7)	-	(12.2)
<b>At 31 March 2015</b>	<b>44.1</b>	<b>6,354.9</b>	<b>5,359.7</b>	<b>796.0</b>	<b>368.6</b>	<b>12,923.3</b>
<b>Accumulated depreciation</b>						
At 1 April 2013	(5.6)	(408.0)	(2,091.4)	(492.5)	-	(2,997.5)
Charge for the year	(0.4)	(50.7)	(160.6)	(39.0)	-	(250.7)
Disposals	-	-	0.1	16.7	-	16.8
<b>At 31 March 2014</b>	<b>(6.0)</b>	<b>(458.7)</b>	<b>(2,251.9)</b>	<b>(514.8)</b>	<b>-</b>	<b>(3,231.4)</b>
Charge for the year	(0.4)	(51.6)	(162.6)	(41.6)	-	(256.2)
Disposals	-	-	1.9	9.4	-	11.3
<b>At 31 March 2015</b>	<b>(6.4)</b>	<b>(510.3)</b>	<b>(2,412.6)</b>	<b>(547.0)</b>	<b>-</b>	<b>(3,476.3)</b>
<b>Net book amount</b>						
<b>At 31 March 2015</b>	<b>37.7</b>	<b>5,844.6</b>	<b>2,947.1</b>	<b>249.0</b>	<b>368.6</b>	<b>9,447.0</b>
At 31 March 2014	37.4	5,748.0	2,869.8	241.0	437.2	9,333.4

Property, plant and equipment at 31 March 2015 includes land of £25.7 million (2014: £25.6 million), which is not subject to depreciation. The Group's interests in land and buildings are almost entirely freehold.

Included within additions above is £18.6 million (2014: £24.3 million) of interest that has been capitalised on qualifying assets.

#### Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases, the majority of which is included in operational assets:

	2015 £m	2014 £m
<b>Net book amount at 31 March</b>	<b>54.4</b>	<b>57.9</b>

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Company has elected to measure its infrastructure and operational assets at 1 April 2013, being the date of transition to IFRS, at their fair value and to use that fair value as their deemed cost at that date (see note 29(ii)).

### 13 Investments

	Company		Total £m
	Loan to parent Company £m	Shares in subsidiary undertakings £m	
<b>Cost</b>			
<b>At 1 April 2013, 1 April 2014 and 31 March 2015</b>	<b>1,602.6</b>	<b>-</b>	<b>1,602.6</b>

The loan of £1,602.6 million (2014: £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 that is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Financing Plc. Interest on the loan is calculated at 12 per cent per annum.

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. It is 100 per cent owned and is registered, incorporated and operating in the UK at 31 March 2015.

### 14 Inventories

	Group and Company		
	2015 £m	2014 £m	2013 £m
Raw materials and consumables	<b>9.0</b>	10.6	9.9

### 15 Trade and other receivables

	Group			Company		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
Trade receivables	<b>420.7</b>	395.4	369.8	<b>420.7</b>	395.4	369.8
Provision for impairment	<b>(197.0)</b>	(190.4)	(178.3)	<b>(197.0)</b>	(190.4)	(178.3)
Net trade receivables	<b>223.7</b>	205.0	191.5	<b>223.7</b>	205.0	191.5
Amounts owed by other Anglian Water Group Limited group undertakings	<b>2.0</b>	1.7	49.0	<b>2.0</b>	1.7	49.0
Other amounts receivable	<b>16.4</b>	10.7	15.8	<b>16.4</b>	10.6	15.7
Prepayments and accrued income	<b>272.3</b>	262.5	251.3	<b>272.3</b>	262.5	251.3
	<b>514.4</b>	479.9	507.6	<b>514.4</b>	479.8	507.5

Prepayments and accrued income as at 31 March 2015 includes water and sewerage income not yet billed of £262.3 million (2014: £254.7 million).

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the Anglian Water Services customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

The movement on the doubtful debts provision, all of which relates to trade receivables, was as follows:

	Group and Company	
	2015 £m	2014 £m
Provision at the start of the year	<b>190.4</b>	178.3
Charge for bad and doubtful debts	<b>33.1</b>	32.4
Amounts written off during the year	<b>(26.7)</b>	(20.4)
Amounts recovered during the year	<b>0.2</b>	0.1
<b>At 31 March</b>	<b>197.0</b>	190.4

## Notes to the Group financial statements continued

### 15 Trade and other receivables continued

Included in trade receivables are balances with a carrying amount of £142.7 million (2014: £141.4 million) that were past due at the reporting date but for which no specific provision has been made, as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances.

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	Group and Company	
	2015 £m	2014 £m
Less than one year	103.7	103.8
Within one to two years	19.7	19.4
Within two to three years	9.4	9.6
Within three to four years	4.3	4.1
After four years	5.6	4.5
	<b>142.7</b>	<b>141.4</b>

At 31 March 2015 and 31 March 2014, the Group had no trade receivables that were individually impaired.

### 16 Trade and other payables

	Group			Company		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
<b>Current</b>						
Trade payables	145.0	126.8	168.6	145.0	126.8	168.6
Amounts owed to other Anglian Water Group Limited group undertakings	0.6	0.7	48.0	67.1	66.8	77.2
Receipts in advance	251.3	223.9	205.4	251.3	223.9	205.4
Other taxes and social security	3.7	3.5	3.4	3.7	3.5	3.4
Accruals and deferred income	60.5	53.4	50.2	39.4	32.2	29.2
Deferred grants and contributions	12.8	12.4	11.9	12.8	12.4	11.9
	<b>473.9</b>	<b>420.7</b>	<b>487.5</b>	<b>519.3</b>	<b>465.6</b>	<b>495.7</b>
<b>Non-current</b>						
Other payables	145.1	142.5	142.5	145.1	142.5	142.5
Deferred grants and contributions	416.1	388.1	357.9	416.1	388.1	357.9
Amounts owed to other Anglian Water Group Limited group undertakings	-	-	2.3	-	-	2.3
	<b>561.2</b>	<b>530.6</b>	<b>502.7</b>	<b>561.2</b>	<b>530.6</b>	<b>502.7</b>

Receipts in advance includes £224.5 million (2014: £201.2 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

The Directors consider that the carrying values of trade and other payables is not materially different from their fair values.

## 17 Loans and other borrowings

	Notes	Group and Company		
		2015 £m	2014 £m	2013 £m
£100 million 12.375% fixed rate 2014	d f h	-	-	102.9
£250 million 5.837% fixed rate 2022	d f h	257.8	257.5	257.3
£200 million 6.875% fixed rate 2023	d f h	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	d f h	202.7	202.7	202.7
£246 million 6.293% fixed rate 2030	d f h	254.3	254.2	254.1
£250 million 5.25% fixed rate 2015	b d f g h	261.8	271.4	283.0
£150 million 5.5% fixed rate 2017/2040 <sup>1</sup>	b d e f h	160.5	161.3	165.9
£150 million 4.125% index-linked 2020	c d f h	234.0	228.9	222.3
£75 million 3.666% index-linked 2024	c d f h	110.9	108.4	105.3
£200 million 3.07% index-linked 2032	c d f h	293.6	287.1	278.6
£60 million 3.07% index-linked 2032	c d f h	89.3	87.2	84.7
Finance leases	b d f g	42.9	52.0	56.0
€650 million 4.625% fixed rate bond 2013	a b d f h	-	-	569.8
£402 million 2.4% index-linked 2035	c d f h	550.6	539.7	525.4
£50 million 1.7% index-linked 2046	c d f h	66.1	64.6	62.7
£50 million 1.7% index-linked 2046	c d f h	66.1	64.6	62.9
£40 million 1.7146% indexation bond 2056	c d f h	53.2	52.1	50.6
£50 million 1.6777% indexation bond 2056	c d f h	66.5	65.1	63.2
£60 million 1.7903% indexation bond 2049	c d f h	79.8	78.0	75.8
£100 million 1.3784% indexation bond 2057	c d f h	132.4	129.5	126.1
£50 million 1.3825% indexation bond 2056	c d f h	66.1	64.7	63.0
£100 million Class A wrapped floating rate bonds	d f h	100.0	100.0	100.0
£75 million 1.449% indexation bond 2062	c d f h	94.7	92.4	89.7
£50 million 1.52% indexation bond 2055	c d f h	63.0	61.5	59.8
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f h	87.2	87.3	107.0
£110 million Class A unwrapped floating rate bonds 2043	d f h	110.1	110.1	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	a b d f h	29.7	31.1	37.9
€500 million 6.25% fixed rate bond 2016	a d f h	379.0	431.7	440.9
£25 million 6.875% private placements 2034	d f h	24.9	24.9	24.9
£100 million Class B 6.75% fixed rate bond 2024 <sup>2</sup>	d f g h	-	62.1	61.4
EIB £50 million 1.626% index-linked term facility 2019	c d f h	60.5	59.5	57.9
EIB £50 million 1.3% index-linked term facility 2020	c f h	59.6	58.7	57.0
£130 million 2.262% indexation bond 2045	c d f h	151.6	149.3	145.0
US\$160 million 4.52% private placements 2021	a b d f h	120.7	104.5	121.6
US\$410 million 5.18% private placements 2021	a b d f h	284.4	245.0	279.0
EIB £75 million 0.53% index-linked term facility 2027 <sup>3</sup>	c d f h	81.0	79.7	77.5
EIB £75 million 0.79% index-linked term facility 2027 <sup>3</sup>	c d f h	81.0	79.7	77.5
£250 million 4.5% fixed rate 2027	d f h	251.4	251.2	251.0
£15 million 1.37% index-linked private placements 2022	c d f h	15.8	15.7	15.2
£50 million 2.05% index-linked private placements 2033	c d f h	53.1	52.5	51.0
£25.5 million 4.195% private placements 2017	d f h	25.9	25.9	25.8
£31.9 million 3.983% private placements 2022	d f h	32.3	32.3	32.3
£73.3 million 4.394% private placements 2028	d f h	74.7	74.7	74.7
£22.3 million 3.983% private placements 2022	d f h	22.6	22.5	22.6
US\$47 million 5% private placements 2022	a b d f h	32.3	28.7	31.6
EIB £150 million 0% index-linked term facility 2028 <sup>4</sup>	c d f h	157.3	154.8	150.5
£200 million Class B 4.5% fixed rate 2026	b d f h	204.6	191.9	199.1
£35 million 1.141% index-linked bond 2042	c d f h	36.3	35.7	-
US\$170 million 3.84% private placements 2023	a b d f h	123.1	103.4	-
£93 million 3.537% private placements 2023	d f h	94.0	94.0	-
US\$160 million 4.99% private placements 2023	a b d f h	109.0	96.7	-
EIB £65 million 0.41% index-linked term facility 2029 <sup>5</sup>	c d f h	66.0	65.0	-
EIB Tranche 2 £125 million 0.1% 2029 <sup>6</sup>	c f h	125.8	-	-
EIB Tranche 3 £60 million 0.01% 2030 <sup>6</sup>	c f h	60.1	-	-
Other loans	d f h	(2.0)	-	-
<b>Total loans and other borrowings</b>		<b>6,406.7</b>	<b>6,199.9</b>	<b>6,521.7</b>
<b>Included in:</b>				
Current liabilities		357.1	168.1	770.8
Non-current liabilities		6,049.6	6,031.8	5,750.9

## Notes to the Group financial statements continued

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### 17 Loans and other borrowings continued

- <sup>1</sup> The coupon for this instrument will increase to floating rate three month LIBOR plus 3.5 per cent 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 per cent of the nominal amount of the bond.
  - <sup>2</sup> The remaining £60.8 million of the £100.0 million 6.75 per cent Class B 2024 fixed rate bond was repaid following a tender offer for £39.2 million in March 2013.
  - <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.
  - <sup>6</sup> This instrument is amortising from 2020 until the date of maturity shown.
- a) The Group has entered into swap agreements to hedge the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings.
  - b) The Group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the Group's hedging policy.
  - c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index. The increase in the capital value of index-linked loans during the year of £54.8 million (2014: £72.5 million) has been taken to the income statement as part of interest payable.
  - d) These loans are shown net of issue costs of £29.7 million (2014: £29.4 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.
  - e) Legal maturity of these instruments is the second of the two years quoted. Coupon 'step-up' is in the first of the years quoted in accordance with the pricing terms agreed at issue.
  - f) A security agreement, dated 30 July 2002, was made between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) under which a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2015, this charge applies to £6,406.7 million (2014: £6,199.9 million) of the debt listed above.
  - g) Amounts repayable wholly or partly within one year.
  - h) These loans are 'back-to-back' inter-group loans from Anglian Water Services Financing Plc to the Company. Under the Company/Anglian Water Services Financing Plc loan agreement, Anglian Water Services Financing Plc on lends an equal amount to the sterling equivalent of each bond to the Company on identical terms. Therefore each individual 'back-to-back' inter-group loan has been separately disclosed. Anglian Water Services Financing Plc charges the Company an annual management fee in respect of entering into the Company/Anglian Water Services Financing Plc loan agreement.

## 18 Financial instruments

Financial assets by category	Group				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to- maturity investments £m	
<b>At 31 March 2015</b>					
Investments					
Current	-	-	-	110.0	110.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	647.5	-	647.5
Trade and other receivables					
Current (excluding prepayments)	-	-	505.3	-	505.3
Derivative financial instruments					
Current	0.1	34.9	-	-	35.0
Non-current	-	94.6	-	-	94.6
	<b>0.1</b>	<b>129.5</b>	<b>2,755.4</b>	<b>110.0</b>	<b>2,995.0</b>
<b>At 31 March 2014</b>					
Investments					
Current	-	-	-	67.9	67.9
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	619.5	-	619.5
Trade and other receivables					
Current (excluding prepayments)	-	-	472.1	-	472.1
Derivative financial instruments					
Current	0.1	30.3	-	-	30.4
Non-current	-	74.0	-	-	74.0
	<b>0.1</b>	<b>104.3</b>	<b>2,694.2</b>	<b>67.9</b>	<b>2,866.5</b>
<b>At 1 April 2013</b>					
Investments					
Current	-	-	-	116.4	116.4
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	961.6	-	961.6
Trade and other receivables					
Current (excluding prepayments)	-	-	500.1	-	500.1
Derivative financial instruments					
Current	0.6	144.6	-	-	145.2
Non-current	-	138.2	-	-	138.2
	<b>0.6</b>	<b>282.8</b>	<b>3,064.3</b>	<b>116.4</b>	<b>3,464.1</b>

## Notes to the Group financial statements continued

### 18 Financial instruments continued

	Company				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to- maturity investments £m	
<b>Financial assets by category continued</b>					
<b>At 31 March 2015</b>					
Investments					
Current	-	-	-	110.0	110.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	646.3	-	646.3
Trade and other receivables					
Current (excluding prepayments)	-	-	505.3	-	505.3
Derivative financial instruments					
Current	0.1	34.9	-	-	35.0
Non-current	-	94.6	-	-	94.6
	<b>0.1</b>	<b>129.5</b>	<b>2,754.2</b>	<b>110.0</b>	<b>2,993.8</b>
<b>At 31 March 2014</b>					
Investments					
Current	-	-	-	67.9	67.9
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	618.3	-	618.3
Trade and other receivables					
Current (excluding prepayments)	-	-	472.0	-	472.0
Derivative financial instruments					
Current	0.1	30.3	-	-	30.4
Non-current	-	74.0	-	-	74.0
	<b>0.1</b>	<b>104.3</b>	<b>2,692.9</b>	<b>67.9</b>	<b>2,865.2</b>
<b>At 1 April 2013</b>					
Investments					
Current	-	-	-	116.4	116.4
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	924.2	-	924.2
Trade and other receivables					
Current (excluding prepayments)	-	-	500.0	-	500.0
Derivative financial instruments					
Current	0.6	144.6	-	-	145.2
Non-current	-	138.2	-	-	138.2
	<b>0.6</b>	<b>282.8</b>	<b>3,026.8</b>	<b>116.4</b>	<b>3,426.6</b>

	Group			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
<b>Financial liabilities by category</b>				
<b>At 31 March 2015</b>				
Borrowings				
Current	-	-	357.1	357.1
Non-current	-	-	6,049.6	6,049.6
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	461.1	461.1
Derivative financial instruments				
Current	10.0	1.0	-	11.0
Non-current	739.4	127.7	-	867.1
	<b>749.4</b>	<b>128.7</b>	<b>6,867.8</b>	<b>7,745.9</b>
<b>At 31 March 2014</b>				
Borrowings				
Current	-	-	168.1	168.1
Non-current	-	-	6,031.8	6,031.8
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	408.3	408.3
Derivative financial instruments				
Current	12.3	1.2	-	13.5
Non-current	509.0	62.2	-	571.2
	<b>521.3</b>	<b>63.4</b>	<b>6,608.2</b>	<b>7,192.9</b>
<b>At 1 April 2013</b>				
Borrowings				
Current	-	-	770.8	770.8
Non-current	-	-	5,750.9	5,750.9
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	475.6	475.6
Derivative financial instruments				
Current	112.2	0.6	-	112.8
Non-current	563.1	9.5	-	572.6
	<b>675.3</b>	<b>10.1</b>	<b>6,997.3</b>	<b>7,682.7</b>

## Notes to the Group financial statements continued

### 18 Financial instruments continued

	Company			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
<b>Financial liabilities by category</b> continued				
<b>At 31 March 2015</b>				
Borrowings				
Current	-	-	357.1	357.1
Non-current	-	-	6,049.6	6,049.6
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	506.5	506.5
Derivative financial instruments				
Current	10.0	1.0	-	11.0
Non-current	739.4	127.7	-	867.1
	<b>749.4</b>	<b>128.7</b>	<b>6,913.2</b>	<b>7,791.3</b>
<b>At 31 March 2014</b>				
Borrowings				
Current	-	-	168.1	168.1
Non-current	-	-	6,031.8	6,031.8
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	453.2	453.2
Derivative financial instruments				
Current	12.3	1.2	-	13.5
Non-current	509.0	62.2	-	571.2
	<b>521.3</b>	<b>63.4</b>	<b>6,653.1</b>	<b>7,237.8</b>
<b>At 1 April 2013</b>				
Borrowings				
Current	-	-	770.8	770.8
Non-current	-	-	5,750.9	5,750.9
Trade and other payables				
Current (excluding deferred grants and contributions)	-	-	483.8	483.8
Derivative financial instruments				
Current	112.2	0.6	-	112.8
Non-current	563.1	9.5	-	572.6
	<b>675.3</b>	<b>10.1</b>	<b>7,005.5</b>	<b>7,690.9</b>

	Group					
	2015 Assets £m	2015 Liabilities £m	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
<b>Derivative financial instruments</b>						
<b>Designated as cash flow hedges</b>						
Interest rate swaps	-	(80.7)	-	(14.8)	30.9	(8.2)
Cross currency interest rate swaps	22.6	(34.6)	38.1	(16.0)	-	(1.9)
Energy swaps	-	(13.4)	-	(4.9)	-	-
	<b>22.6</b>	<b>(128.7)</b>	<b>38.1</b>	<b>(35.7)</b>	<b>30.9</b>	<b>(10.1)</b>
<b>Designated as fair value hedges</b>						
Interest rate swaps	26.6	-	31.3	(5.7)	49.2	-
Cross currency interest rate swaps	80.3	-	34.9	(22.0)	202.7	-
	<b>106.9</b>	<b>-</b>	<b>66.2</b>	<b>(27.7)</b>	<b>251.9</b>	<b>-</b>
Derivative financial instruments designated as hedges	<b>129.5</b>	<b>(128.7)</b>	104.3	(63.4)	282.8	(10.1)
Derivative financial instruments not designated as hedges:						
Interest rate swaps and swaptions	0.1	(168.9)	0.1	(59.9)	0.1	(70.2)
RPI swaps	-	(572.5)	-	(454.3)	-	(602.9)
Energy swaps	-	(8.0)	-	(7.1)	0.5	(2.2)
<b>Total derivative financial instruments</b>	<b>129.6</b>	<b>(878.1)</b>	<b>104.4</b>	<b>(584.7)</b>	<b>283.4</b>	<b>(685.4)</b>
Derivative financial instruments can be analysed as follows:						
Current	35.0	(11.0)	30.4	(13.5)	145.2	(112.8)
Non-current	94.6	(867.1)	74.0	(571.2)	138.2	(572.6)
	<b>129.6</b>	<b>(878.1)</b>	<b>104.4</b>	<b>(584.7)</b>	<b>283.4</b>	<b>(685.4)</b>
	Company					
	2015 Assets £m	2015 Liabilities £m	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
<b>Derivative financial instruments</b>						
<b>Designated as cash flow hedges</b>						
Interest rate swaps	-	(80.7)	-	(14.8)	30.9	(8.2)
Cross currency interest rate swaps	22.6	(34.6)	38.1	(16.0)	-	(1.9)
Energy swaps	-	(13.4)	-	(4.9)	-	-
	<b>22.6</b>	<b>(128.7)</b>	<b>38.1</b>	<b>(35.7)</b>	<b>30.9</b>	<b>(10.1)</b>
<b>Designated as fair value hedges</b>						
Interest rate swaps	26.6	-	31.3	(5.7)	49.2	-
Cross currency interest rate swaps	80.3	-	34.9	(22.0)	202.7	-
	<b>106.9</b>	<b>-</b>	<b>66.2</b>	<b>(27.7)</b>	<b>251.9</b>	<b>-</b>
Derivative financial instruments designated as hedges	<b>129.5</b>	<b>(128.7)</b>	104.3	(63.4)	282.8	(10.1)
Derivative financial instruments not designated as hedges:						
Interest rate swaps and swaptions	0.1	(168.9)	0.1	(59.9)	0.1	(70.2)
RPI swaps	-	(572.5)	-	(454.3)	-	(602.9)
Energy swaps	-	(8.0)	-	(7.1)	0.5	(2.2)
<b>Total derivative financial instruments</b>	<b>129.6</b>	<b>(878.1)</b>	<b>104.4</b>	<b>(584.7)</b>	<b>283.4</b>	<b>(685.4)</b>
Derivative financial instruments can be analysed as follows:						
Current	35.0	(11.0)	30.4	(13.5)	145.2	(112.8)
Non-current	94.6	(867.1)	74.0	(571.2)	138.2	(572.6)
	<b>129.6</b>	<b>(878.1)</b>	<b>104.4</b>	<b>(584.7)</b>	<b>283.4</b>	<b>(685.4)</b>

# Notes to the Group financial statements continued

## 18 Financial instruments continued

### Derivative financial instruments continued

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a loss of £0.6 million (2014: gain £0.1 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £1.8 million (2014: loss £0.7 million).

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2015 was £3,899.3 million (2014: £3,086.4 million) and outstanding swaptions at 31 March 2015 were £300.0 million (2014: £300.0 million).

The notional foreign currency principal amount of the outstanding cross currency interest rate swap contracts at 31 March 2015 was USD 947.0 million (2014: USD 947.0 million), EUR 500.0 million (2014: EUR 500.0 million), JPY 20.0 billion (2014: JPY 20.0 billion).

At 31 March 2015 the fixed interest rates vary from 2.869 per cent to 7.163 per cent and floating rates vary from 0.681 per cent (LIBOR plus 0.0bp) to 3.354 per cent (LIBOR plus 267.5bp) and index-linked interest rates vary from 1.270 per cent plus RPI to 2.970 per cent plus RPI. Gains and losses recognised in the hedging reserve in equity on interest rate and cross currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in the hedging reserve in equity on energy hedges will be released to the income statement within operating costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IAS 39 the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. It has been assessed that the intercompany loan agreement in place between Anglian Water Services Limited and Anglian Water Services Financing Plc, which passes the financing arrangements of the external debt and derivative positions held by Anglian Water Services Financing Plc to Anglian Water Services Limited, contains non-closely related embedded derivatives, which are separated from the host loan agreement contract.

There were no other amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2015 (2014: £nil).

The effective interest rates at the balance sheet dates were as follows:

	Group and Company	
	2015 %	2014 %
Borrowings - GBP	4.0	4.6
Borrowings - USD	2.9	2.9
Borrowings - EUR	7.0	7.0
Borrowings - JPY	1.4	1.3

The weighted average interest costs at the balance sheet dates were as follows:

	Group and Company	
	2015 %	2014 %
Fixed	5.7	5.7
Floating	1.4	1.3
Indexed	3.8	4.9

### Finance leases

The minimum lease payments under finance leases fall due as follows:

	Group and Company		
	2015 £m	2014 £m	2013 £m
Within one year	4.7	8.9	4.4
Within two and five years	26.0	24.8	28.9
After five years	15.5	22.5	30.0
	46.2	56.2	63.3
Future finance charges on finance leases	(3.3)	(4.2)	(7.4)
Present value of finance lease liabilities	42.9	52.0	55.9

	Group					
	2015 Book value £m	2015 Fair value £m	2014 Book value £m	2014 Fair value £m	2013 Book value £m	2013 Fair value £m
<b>Fair value of financial assets and liabilities</b>						
Cash and cash equivalents	647.5	647.5	619.5	619.5	961.6	961.6
Current borrowings	(357.1)	(361.4)	(168.1)	(167.3)	(770.8)	(787.8)
Non-current borrowings	(6,049.6)	(7,462.9)	(6,031.8)	(6,877.1)	(5,750.9)	(6,672.9)
Current derivative financial instruments	33.9	33.9	29.2	29.2	144.1	144.1
Non-current derivative financial instruments	(188.5)	(188.5)	(43.2)	(43.2)	58.5	58.5
Current RPI swaps	(8.0)	(8.0)	(7.9)	(7.9)	(111.6)	(111.6)
Non-current RPI swaps	(564.5)	(564.5)	(446.4)	(446.4)	(491.3)	(491.3)
	<b>(6,486.3)</b>	<b>(7,903.9)</b>	<b>(6,048.7)</b>	<b>(6,893.2)</b>	<b>(5,960.4)</b>	<b>(6,899.4)</b>
Non-current asset investments	1,602.6	2,747.3	1,602.6	2,403.9	1,602.6	2,403.9
Current asset investments	110.0	110.0	67.9	67.9	116.4	116.4
Energy hedging derivatives	(21.4)	(21.4)	(12.0)	(12.0)	(1.7)	(1.7)
Other financial liabilities	-	(5.0)	-	(5.1)	-	(21.7)
	<b>(4,795.1)</b>	<b>(5,073.0)</b>	<b>(4,390.2)</b>	<b>(4,438.5)</b>	<b>(4,243.1)</b>	<b>(4,402.5)</b>

	Company					
	2015 Book value £m	2015 Fair value £m	2014 Book value £m	2014 Fair value £m	2013 Book value £m	2013 Fair value £m
<b>Fair value of financial assets and liabilities</b>						
Cash and cash equivalents	646.3	646.3	618.3	618.3	924.2	924.2
Current borrowings	(357.1)	(361.4)	(168.1)	(167.3)	(770.8)	(787.8)
Non-current borrowings	(6,049.6)	(7,462.9)	(6,031.8)	(6,877.1)	(5,750.9)	(6,672.9)
Current derivative financial instruments	33.9	33.9	29.2	29.2	144.1	144.1
Non-current derivative financial instruments	(188.5)	(188.5)	(43.2)	(43.2)	58.5	58.5
Current RPI swaps	(8.0)	(8.0)	(7.9)	(7.9)	(111.6)	(111.6)
Non-current RPI swaps	(564.5)	(564.5)	(446.4)	(446.4)	(491.3)	(491.3)
	<b>(6,487.5)</b>	<b>(7,905.1)</b>	<b>(6,049.9)</b>	<b>(6,894.4)</b>	<b>(5,997.8)</b>	<b>(6,936.8)</b>
Non-current asset investments	1,602.6	2,747.3	1,602.6	2,403.9	1,602.6	2,403.9
Current asset investments	110.0	110.0	67.9	67.9	116.4	116.4
Energy hedging derivatives	(21.4)	(21.4)	(12.0)	(12.0)	(1.7)	(1.7)
Other financial liabilities	-	(5.0)	-	(5.1)	-	(21.7)
	<b>(4,796.3)</b>	<b>(5,074.2)</b>	<b>(4,391.4)</b>	<b>(4,439.7)</b>	<b>(4,280.5)</b>	<b>(4,439.9)</b>

# Notes to the Group financial statements continued

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## 18 Financial instruments continued

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost the Group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at 31 March with reference to estimated future cash flows and observable yield curves. The value of cross currency interest rate derivative financial instruments is determined using forward exchange rates at 31 March, with the resulting value discounted back to calculate the net realisable value that would have arisen if these contracts terminated at 31 March. The fair value of the Group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at 31 March.

The fair value of interest rate swaptions, as included within derivative financial instruments above, represents the cost 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.

Fair values of other non-current investments, non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from book value.

Derivative transactions expose the Group to credit risk against the counterparties concerned. Anglian Water has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The Group only enters into derivative transactions 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.

In accordance with IFRS 7 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets for identical assets and liabilities. The future cash flows have been discounted at a rate that reflects credit risk.

### Financing structure

The Group's regulated water and water recycling business, Anglian Water, is funded predominantly by debt, in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2015, Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.2 per cent (2014: 79.6 per cent).

### Control of treasury

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

- Ensure that lenders' covenants are met
- Secure funds through a balanced approach to financial markets and maturities
- Manage interest rates to minimise financial exposures and 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
- Monitor counterparty credit exposure.

### Borrowing covenants

All the Anglian Water Services Group's borrowings are raised by the Company and guaranteed by the Anglian Water Services Financing Group which comprises of Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

The treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

### Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in May 2015 and treasury matters are reported to the Board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance and Non-Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

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

The Group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy.

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

## 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's foreign exchange policy allows for a range of hedge instruments, including forward foreign exchange, swaps and options, to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation, and has no material net exposure to movements in currency rates.

## 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. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained between 30 per cent and 60 per cent for fixed rate debt, between 30 per cent and 55 per cent for index-linked debt, and between five per cent and 15 per cent for floating rate debt. Within these hedging levels, the Group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, ie the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as required, within the hedging limits outlined above.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the Group's profits and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	Group and Company	
	2015 £m	2014 £m
<b>Increase/(decrease) in profit before tax and in equity</b>		
1% increase in interest rates	<b>316.3</b>	259.6
1% decrease in interest rates	<b>(648.8)</b>	(376.4)

The following assumptions were made in calculating the interest rate sensitivity analysis:

- Cash flow and fair value hedge relationships remain effective
- The main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions that are not hedge accounted
- Cash flow sensitivity is calculated on floating interest rate net debt
- All other factors are held constant.

## iii Inflation rate risk

The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for index-linked debt of between 30 per cent and 55 per cent of total debt.

The sensitivity at 31 March of the Group's profit before taxation and equity to changes in RPI on debt and derivative instruments is set out in the following tables:

## Debt instruments

The analysis below shows the impact of a one per cent change in RPI over the 12-month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis, which varies from three to 14 months and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to 14 months earlier.

	Group and Company	
	2015 £m	2014 £m
<b>Increase/(decrease) in profit before tax and in equity</b>		
1% increase in RPI	<b>(22.8)</b>	(21.9)
1% decrease in RPI	<b>22.8</b>	21.9

## Notes to the Group financial statements continued

### 18 Financial instruments continued

#### RPI-linked derivatives

The fair values of the Group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table.

	Group and Company	
	2015 £m	2014 £m
<b>Increase/(decrease) in profit before tax and in equity</b>		
1% increase in RPI	(171.0)	(149.5)
1% decrease in RPI	116.1	104.0

#### iv Commodity price risk

The Group is allowed a fixed amount of revenue by Ofwat, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow. The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, or through the purchase of wholesale electricity swaps with financial counterparties.

The Group has used a combination of forwards contracts and electricity swap contracts to fix the price of 73 per cent of its anticipated electricity usage to the end of AMP6.

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/(decrease) in commodity prices would have the following impact:

	Group and Company	
	2015 £m	2014 £m
<b>Increase/(decrease) in profit before tax and in equity</b>		
10% increase in commodity prices	8.2	8.0
10% decrease in commodity prices	(8.2)	(8.0)

#### b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

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 that 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.

The table below shows the counterparty by rating type and the balances on deposit.

	Group	
	2015 £m	2014 £m
<b>Counterparty</b>		
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher	757.5	687.4
	Company	
	2015 £m	2014 £m
<b>Counterparty</b>		
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher	756.3	686.2

In the case of derivatives, any current positive value from a Group perspective is at risk, however, there is potential for the value to become increasingly positive in the future as market rates move. Group policy requires that transactions are only executed with counterparties that are both (a) from the lending group and (b) rated at least A- (long term) or A1 (short term) by Standard & Poor's, Moody's or Fitch.

At 31 March 2015 and 31 March 2014, the maximum exposure to credit risk for the Group and Company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group	
	2015 £m	2014 £m
Cash and cash equivalents	647.5	619.5
Trade and other receivables	514.4	479.9
Investments	110.0	67.9
Derivative financial assets	129.6	104.4
	Company	
	2015 £m	2014 £m
Cash and cash equivalents	646.3	618.3
Trade and other receivables	514.4	479.8
Investments	110.0	67.9
Derivative financial assets	129.6	104.4

#### c) Capital risk management

Treasury's prime responsibility is the efficient and effective management of financial resources within the Group, ie the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. Treasury will actively seek opportunities to raise debt, and to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk, while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the high level of gearing in the Group and the long-term nature of the Group's asset base, the Group is primarily funded from the debt capital markets. It is the Group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintains a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

#### d) Liquidity risk

The Group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity and covenant compliance, and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The Group maintains sufficient liquidity to cover 12 months' working capital requirements. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least six months in advance, to ensure covenant compliance.

The Group has the following undrawn committed borrowing facilities available at 31 March 2015 in respect of which all conditions precedent had been met at that date:

	Group	
	2015 £m	2014 £m
Within one year	375.0	375.0
Within two and five years	500.0	420.0
	875.0	795.0

The Company has no borrowing facilities.

The Group's borrowing facilities comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Santander UK Plc and Lloyds TSB Bank Plc; a £96.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds Bank Plc, Santander UK Plc and Commonwealth Bank of Australia; a syndicated £500.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks.

## Notes to the Group financial statements continued

### 18 Financial instruments continued

#### d) Liquidity risk continued

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Group				Total £m
	Within one year £m	Within one and five years £m	Within five and 25 years £m	After 25 years £m	
<b>At 31 March 2015</b>					
Trade and other payables	(461.1)	-	-	-	(461.1)
Borrowings	(477.4)	(1,638.9)	(7,015.5)	(3,754.1)	(12,885.9)
Derivative financial instruments	(68.1)	(4.1)	(258.1)	(973.8)	(1,304.1)
Finance leases	(3.7)	(19.0)	(10.2)	-	(32.9)
	<b>(1,010.3)</b>	<b>(1,662.0)</b>	<b>(7,283.8)</b>	<b>(4,727.9)</b>	<b>(14,684.0)</b>
<b>At 31 March 2014</b>					
Trade and other payables	(408.3)	-	-	-	(408.3)
Borrowings	(291.8)	(1,721.4)	(7,517.7)	(4,343.7)	(13,874.6)
Derivative financial instruments	6.8	10.8	(366.9)	(1,189.6)	(1,538.9)
Finance leases	(7.9)	(18.3)	(16.1)	-	(42.3)
	<b>(701.2)</b>	<b>(1,728.9)</b>	<b>(7,900.7)</b>	<b>(5,533.3)</b>	<b>(15,864.1)</b>

	Company				Total £m
	Within one year £m	Within one and five years £m	Within five and 25 years £m	After 25 years £m	
<b>At 31 March 2015</b>					
Trade and other payables	(506.5)	-	-	-	(506.5)
Borrowings	(477.4)	(1,638.9)	(7,015.5)	(3,754.1)	(12,885.9)
Derivative financial instruments	(68.1)	(4.1)	(258.1)	(973.8)	(1,304.1)
Finance leases	(3.7)	(19.0)	(10.2)	-	(32.9)
	<b>(1,055.7)</b>	<b>(1,662.0)</b>	<b>(7,283.8)</b>	<b>(4,727.9)</b>	<b>(14,729.4)</b>
<b>At 31 March 2014</b>					
Trade and other payables	(453.2)	-	-	-	(453.2)
Borrowings	(291.8)	(1,721.4)	(7,517.7)	(4,343.7)	(13,874.6)
Derivative financial instruments	6.8	10.8	(366.9)	(1,189.6)	(1,538.9)
Finance leases	(7.9)	(18.3)	(16.1)	-	(42.3)
	<b>(746.1)</b>	<b>(1,728.9)</b>	<b>(7,900.7)</b>	<b>(5,533.3)</b>	<b>(15,909.0)</b>

**19 Provisions for liabilities**

	Group and Company		
	Onerous leases £m	Coupon enhancement £m	Total £m
At 1 April 2013	1.5	11.2	12.7
Unwinding of discount	0.1	(0.5)	(0.4)
Utilised in the year	(0.2)	(2.0)	(2.2)
<b>At 31 March 2014</b>	<b>1.4</b>	<b>8.7</b>	<b>10.1</b>
At 1 April 2014	1.4	8.7	10.1
Additional provision	-	2.1	2.1
Unwinding of discount	0.1	0.4	0.5
Utilised in the year	(0.2)	(1.5)	(1.7)
<b>At 31 March 2015</b>	<b>1.3</b>	<b>9.7</b>	<b>11.0</b>

## Maturity analysis of total provisions

	2015 £m	2014 £m	2013 £m
Current	1.4	1.2	1.6
Non-current	9.6	8.9	11.1
	11.0	10.1	12.7

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next 10 years.

As part of the Anglian Water securitisation that took place in 2002, the bonds that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Ltd for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date.

**20 Deferred tax**

	Group and Company					
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
At 1 April 2013	1,554.7	(112.8)	(19.8)	(142.5)	(5.1)	1,274.5
(Credited)/charged directly to the income statement	(193.5)	30.0	6.6	-	0.6	(156.3)
Credited directly to other comprehensive income	-	1.8	1.1	-	-	2.9
<b>At 31 March 2014</b>	<b>1,361.2</b>	<b>(81.0)</b>	<b>(12.1)</b>	<b>(142.5)</b>	<b>(4.5)</b>	<b>1,121.1</b>
Charged directly to the income statement	(6.1)	(42.6)	4.4	(2.6)	-	(46.9)
Charged/(credited) directly to other comprehensive income	-	(15.1)	-	-	-	(15.1)
<b>At 31 March 2015</b>	<b>1,355.1</b>	<b>(138.7)</b>	<b>(7.7)</b>	<b>(145.1)</b>	<b>(4.5)</b>	<b>1,059.1</b>

Deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced that 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 £145.1 million. An equal profit and loss credit would also arise in writing off the inter-group liability to pay for this ACT asset, which is included within note 16 - Trade and other payables.

## Notes to the Group financial statements continued

### 21 Pension commitments

Pension arrangements for just under half of the Group's employees are of the funded defined benefit type, through the AWG Pension Scheme (AWGPS) and various other smaller arrangements. Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving the schemes, payable on attainment of retirement age (or earlier death). In addition, pensions in payment to a number of former employees are unfunded. The administration and investment of the pension funds are maintained separately from the finances of the Group.

The defined benefit arrangements are open to future accrual but closed to new members, who are eligible instead for entry to the Group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

A full valuation as at 31 March 2011 was completed for AWGPS, the results of which have been used as a basis for the IAS 19 disclosures as at 31 March 2015.

Following a comprehensive review process, in 2011 the Group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure its long-term sustainability.

The Group has a plan in place with the scheme's trustees to address the funding deficit by 2026, through a series of annual deficit recovery contributions.

The Group contributed 12.5 per cent (2014: 12.5 per cent) of pensionable pay plus £23.3 million (2014: £22.7 million) of deficit reduction payments to AWGPS during the year. In the year to 31 March 2016, employers' contributions are expected to be 15.5 per cent of pensionable pay plus £10 million of deficit reduction payments.

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.

The weighted average duration of the defined benefit obligation is 19 years for AWGPS and Hartlepool and 14 years for the unfunded scheme.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £6.3 million (2014: £5.7 million).

#### a) Principal actuarial assumptions

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

	2015 % pa	2014 % pa
Discount rate	3.2	4.3
Inflation rate		
– RPI	3.0	3.4
– CPI	2.0	2.4
Increase to deferred benefits during deferment		
– RPI	3.0	3.4
– CPI	2.0	2.4
Increases to inflation related pensions in payment <sup>1</sup>		
– RPI	2.9	3.3
– CPI	2.1	2.4
General salary increases <sup>2</sup>	2.5/4.0	2.5/4.4
	2015 Years	2014 Years
Longevity at age 65 for current pensioners		
– Men	23.2	23.1
– Women	25.5	25.4
Longevity at age 65 for future pensioners <sup>3</sup>		
– Men	25.0	24.9
– Women	27.5	27.4

<sup>1</sup> For RPI pension increases capped at 5 per cent per annum.

<sup>2</sup> As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees who are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5 per cent per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.4 per cent per annum) and RPI price inflation (3.4 per cent per annum) are both above 2.5 per cent per annum at 31 March 2015, the 2.5 per cent cap on future pensionable salary increases is assumed to apply. Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5 per cent per annum over the period from 1 April 2012 to retirement or earlier leaving.

<sup>3</sup> The life expectancy shown for future pensioners is for those reaching 65 in 2035.

b) Sensitivity analysis  
The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

2015	Change in assumption	AWGPs schemes £m	Total other		Total £m
			funded pensions £m	unfunded pensions £m	
Discount rate	+/- 0.5% pa	-108/+123	-/+2	+/-3	-113/+128
Rate of RPI inflation	+/- 0.5% pa	+113/-102	+/-1	+/-3	+117/-106
Rate of salary increases	+/- 0.5% pa	nil	+/-1	nil	+/-1
Life expectancy	+/- 1 year	+/-37	+/-1	+/-2	+/-40

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section c below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on CPI inflation, pension increases and salary increases due to the way the assumptions are derived.

c) Risk and risk management  
The Group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the Group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the Group) and from an accounting perspective – ie the extent to which such risks affect the amounts recorded in the Group's financial statements.

#### Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The Group believes that return-seeking assets offer an appropriate level of return over the long term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

#### Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the Group's contribution requirements. However, in this scenario the schemes' investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

#### Price inflation

The majority of the schemes' benefit obligations are linked to inflation and higher output inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes' assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

#### Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

## Notes to the Group financial statements continued

### 21 Pension commitments continued

d) Amounts recognised in comprehensive income

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2015</b>				
<b>Amount charged to staff costs within operating profit</b>				
Current service cost	(6.9)	-	(0.1)	(7.0)
Administration expenses	(1.2)	-	(0.1)	(1.3)
<b>Total operating charge (see note 8)</b>	<b>(8.1)</b>	<b>-</b>	<b>(0.2)</b>	<b>(8.3)</b>
<b>Net interest expense (see note 6)</b>	<b>(0.1)</b>	<b>(1.9)</b>	<b>(0.1)</b>	<b>(2.1)</b>
<b>Amounts charged to the income statement</b>	<b>(8.2)</b>	<b>(1.9)</b>	<b>(0.3)</b>	<b>(10.4)</b>
<b>Amounts credited/(charged) to other comprehensive income</b>				
Return on plan assets (excluding amounts included in net interest)	156.4	-	4.9	161.3
Actuarial losses arising from changes in financial assumptions	(154.1)	(3.6)	(3.7)	(161.4)
<b>Net credit/(charge) to other comprehensive income</b>	<b>2.3</b>	<b>(3.6)</b>	<b>1.2</b>	<b>(0.1)</b>

2014

Amount charged to staff costs within operating profit

Current service cost	(7.8)	-	(0.2)	(8.0)
Administration expenses	(0.6)	-	-	(0.6)
<b>Total operating charge (see note 8)</b>	<b>(8.4)</b>	<b>-</b>	<b>(0.2)</b>	<b>(8.6)</b>
<b>Net interest (expense)/income (see note 6)</b>	<b>(1.2)</b>	<b>(2.0)</b>	<b>0.1</b>	<b>(3.1)</b>
<b>Amounts charged to the income statement</b>	<b>(9.6)</b>	<b>(2.0)</b>	<b>(0.1)</b>	<b>(11.7)</b>
<b>Amounts (charged)/credited to other comprehensive income</b>				
Return on plan assets (excluding amounts included in net interest)	(6.3)	-	(2.3)	(8.6)
Actuarial gains arising from changes in financial assumptions	12.2	0.8	0.4	13.4
<b>Net credit/(charge) to other comprehensive income</b>	<b>5.9</b>	<b>0.8</b>	<b>(1.9)</b>	<b>4.8</b>

e) Amounts recognised in the balance sheet

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2015</b>				
Equities	301.6	-	3.6	305.2
Corporate bonds	674.2	-	-	674.2
Government bonds	145.6	-	19.0	164.6
Property	86.9	-	-	86.9
Alternatives	(65.7)	-	1.9	(63.8)
Other	129.5	-	-	129.5
<b>Total assets</b>	<b>1,272.1</b>	<b>-</b>	<b>24.5</b>	<b>1,296.6</b>
Present value of scheme liabilities	(1,262.4)	(48.6)	(24.0)	(1,335.0)
<b>Net pension liability</b>	<b>9.7</b>	<b>(48.6)</b>	<b>0.5</b>	<b>(38.4)</b>
<b>2014</b>				
Equities	255.1	-	2.9	258.0
Corporate bonds	470.2	-	-	470.2
Government bonds	226.7	-	15.0	241.7
Property	65.1	-	-	65.1
Alternatives	2.8	-	0.9	3.7
Other	55.0	-	-	55.0
<b>Total assets</b>	<b>1,074.9</b>	<b>-</b>	<b>18.8</b>	<b>1,093.7</b>
Present value of scheme liabilities	(1,088.6)	(45.9)	(19.9)	(1,154.4)
<b>Net pension liability</b>	<b>(13.7)</b>	<b>(45.9)</b>	<b>(1.1)</b>	<b>(60.7)</b>

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2013</b>				
Equities	283.8	-	2.3	286.1
Corporate bonds	419.2	-	-	419.2
Government bonds	207.1	-	15.9	223.0
Property	47.3	-	-	47.3
Alternatives	22.6	-	1.7	24.3
Other	58.8	-	-	58.8
<b>Total assets</b>	<b>1,038.8</b>	<b>-</b>	<b>19.9</b>	<b>1,058.7</b>
Present value of scheme liabilities	(1,077.2)	(47.5)	(20.1)	(1,144.8)
<b>Net pension liability</b>	<b>(38.4)</b>	<b>(47.5)</b>	<b>(0.2)</b>	<b>(86.1)</b>

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

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

f) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2015</b>				
At 1 April 2014	<b>1,074.9</b>	<b>-</b>	<b>18.8</b>	<b>1,093.7</b>
Interest income on scheme assets	46.1	-	0.9	47.0
Administration costs	(1.2)	-	(0.1)	(1.3)
Employers' contributions	29.3	2.8	0.7	32.8
Members' contributions	3.6	-	-	3.6
Benefits paid	(37.0)	(2.8)	(0.7)	(40.5)
Return on plan assets (excluding interest income)	156.4	-	4.9	161.3
<b>At 31 March 2015</b>	<b>1,272.1</b>	<b>-</b>	<b>24.5</b>	<b>1,296.6</b>
<b>2014</b>				
At 1 April 2013	1,038.8	-	19.9	1,058.7
Interest income on scheme assets	44.6	-	0.9	45.5
Administration costs	(0.6)	-	-	(0.6)
Employers' contributions	28.4	2.8	1.1	32.3
Members' contributions	3.7	-	-	3.7
Benefits paid	(33.7)	(2.8)	(0.8)	(37.3)
Return on plan assets (excluding interest income)	(6.3)	-	(2.3)	(8.6)
At 31 March 2014	1,074.9	-	18.8	1,093.7

## Notes to the Group financial statements continued

### 21 Pension commitments continued

#### g) Reconciliation of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
<b>2015</b>				
At 1 April 2014	(1,088.6)	(45.9)	(19.9)	(1,154.4)
Current service cost	(6.9)	-	(0.1)	(7.0)
Interest cost on scheme liabilities	(46.2)	(1.9)	(1.0)	(49.1)
Members' contributions	(3.6)	-	-	(3.6)
Benefits paid	37.0	2.8	0.7	40.5
Actuarial loss	(154.1)	(3.6)	(3.7)	(161.4)
<b>At 31 March 2015</b>	<b>(1,262.4)</b>	<b>(48.6)</b>	<b>(24.0)</b>	<b>(1,335.0)</b>
<b>2014</b>				
At 1 April 2013	(1,077.2)	(47.5)	(20.1)	(1,144.8)
Current service cost	(7.8)	-	(0.2)	(8.0)
Interest cost on scheme liabilities	(45.8)	(2.0)	(0.8)	(48.6)
Members' contributions	(3.7)	-	-	(3.7)
Benefits paid	33.7	2.8	0.8	37.3
Actuarial gain	12.2	0.8	0.4	13.4
At 31 March 2014	(1,088.6)	(45.9)	(19.9)	(1,154.4)

### 22 Share capital

	Group and Company		
	2015 £m	2014 £m	2013 £m
<b>Allotted, issued and fully paid</b>			
10 million (2014: 10 million) ordinary shares of £1 each	10.0	10.0	10.0
	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

### 23 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 2015.

	Group and Company	
	2015 £m	2014 £m
Property, plant and equipment	69.9	101.1
Intangible assets	8.2	12.0
	<b>78.1</b>	<b>113.1</b>

### 24 Operating lease commitments

The Group and Company lease certain properties and various items of plant and equipment, as well as vehicles, under operating leases. In addition, the Group and Company sublet leased properties.

At 31 March 2015, the Group and Company had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	2015 £m	2014 £m
Within one year	4.0	3.9
Within two and five years	14.8	12.0
After five years	25.1	14.5
	<b>43.9</b>	<b>30.4</b>

The total future minimum sublease payments expected to be received under non-cancellable operating leases were:

	2015 £m	2014 £m
Within one year	0.4	0.5
Within two and five years	1.8	1.9
After five years	1.2	1.6
	<b>3.4</b>	<b>4.0</b>

## 25 Contingencies

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 2015 amounted to £7,073.7 million (2014: £6,621.3 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 (2014: £1,602.6 million) loan made by the Company to Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2015.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging that the Company 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 its latest thinking in relation to the investigation. On 2 September 2013, we submitted a response to Ofwat in relation to the issues raised in the course of the 11 July meeting. On 25 April 2014, Ofwat issued a Supplementary Statement of Objections and a press release to say that further investigation is required before a decision could be taken, but gave no indication of when this process would be concluded. Anglian Water responded to the Supplementary Statement of Objections in July 2014. The next step is to attend an oral hearing, a date for which has yet to be set by Ofwat. 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 claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items in these financial statements.

## 26 Ultimate parent undertaking and controlling party

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

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.

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the Company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the Company. Copies of the Anglian Water Group Limited financial statements and Osprey Acquisitions Limited's financial statements can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6YJ.

## 27 Related party transactions

### a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Company as they each have the ability to influence the financial and operating policies of both the Company and the Group.

During the year to 31 March 2015, Anglian Water Services Financing Plc entered into a fixed to fixed swap agreement with a notional principal of £31.3 million, on normal commercial terms, 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. In addition to this, the Commonwealth Bank of Australia participated in the new £500 million revolving credit facility with an allocation of £45 million and renewed its participation in the Class Operation and Maintenance facility. The fees earned on these facilities totalled £188,750.

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 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 that 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 2015 there were no other transactions, other than £180.2 million of dividends (2014: none other than £202.1 million of dividends), with the shareholders.

## Notes to the Group financial statements continued

### 27 Related party transactions continued

#### b) Remuneration of key management personnel

Key management personnel comprise all the Directors and the members of the Management Board during the year.

The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 86 to 117.

	2015 £m	2014 £m
Short-term employee benefits	4.5	4.1
Post-employment benefits	0.5	0.5
Other long-term benefits	1.5	1.4
	<b>6.5</b>	<b>6.0</b>

At the balance sheet date key management also held various bonds issued by the Group totalling £0.1 million (2014: £0.2 million).

#### c) Parent company

The Company's related party transactions are summarised below:

	2015 £m	2014 £m
Sale of goods/services to		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	0.4	0.4
Purchase of goods/services from		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	0.5	0.2
Management fees received from		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Management fees paid to		
- Parent company	-	-
- Subsidiaries	0.3	0.3
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Interest received from		
- Parent company	192.3	192.3
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Interest paid to		
- Parent company	-	-
- Subsidiaries	287.5	325.0
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Dividends received from		
- Subsidiaries	-	-
Dividends paid to		
- Parent company	372.5	394.4

	2015 £m	2014 £m
Trade and other receivables due from		
- Parent company	0.5	0.5
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	1.5	1.2
Trade and other payables due to		
- Parent company	-	-
- Subsidiaries	66.5	66.1
- Fellow subsidiaries of Anglian Water Group Limited	0.6	0.7
Loans and other borrowings due from		
- Parent company	1,602.6	1,602.6
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Loans and other borrowings due to		
- Parent company	-	-
- Subsidiaries	6,363.8	6,147.9
- Fellow subsidiaries of Anglian Water Group Limited	-	-

## 28 Events after the balance sheet date

The final dividend for 2014/15 of £100.0 million was approved by the Board on 20 May 2015 for payment on 29 May 2015.

## 29 Transition to International Financial Reporting Standards (IFRS)

This is the first year in which the Group has presented its financial statements under IFRS. The last financial statements prepared under UK GAAP were for the year ended 31 March 2014. The Group's date of transition to IFRS was 1 April 2013 and all comparative information in these financial statements has been restated to reflect the Group's adoption of IFRS, except where otherwise required or permitted by IFRS 1.

IFRS 1 requires that IFRS is applied retrospectively to establish the Group's balance sheet at the date of transition, 1 April 2013, unless a specific exemption is applied. In preparing these IFRS financial statements, the Group has adopted the following exemptions:

- To elect not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations that occurred before the date of transition to IFRS
- To measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and to use that fair value as its deemed cost at that date
- To recognise in full transfers of assets from customers from the date of transition to IFRS.

The analysis below shows a reconciliation of equity, at both 31 March 2013 and 31 March 2014, and profit for the year ended 31 March 2014, as reported under UK GAAP, to the revised equity and total comprehensive income under IFRS reported in these consolidated

## Notes to the Group financial statements continued

### 29 Transition to International Financial Reporting Standards (IFRS) continued

financial statements.

Reconciliation of consolidated income statement for the year ended 31 March 2014

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Capitalisation of interest £m	Financial instruments £m	Deferred tax £m	Other items £m	Restated under IFRS £m
<b>Continuing operations</b>								
Revenue	1,214.0	-	-	-	-	-	-	1,214.0
Other operating income	-	12.3	-	-	-	-	-	12.3
Operating costs								
- Operating costs before depreciation and amortisation	(451.2)	(34.2)	-	-	-	-	-	(485.4)
- Depreciation and amortisation	(271.8)	56.1	(45.1)	(11.2)	-	-	-	(272.0)
- Fair value losses on energy hedges	-	-	-	-	(5.4)	-	-	(5.4)
Total operating costs	(723.0)	21.9	(45.1)	(11.2)	(5.4)	-	-	(762.8)
<b>Operating profit</b>	<b>491.0</b>	<b>34.2</b>	<b>(45.1)</b>	<b>(11.2)</b>	<b>(5.4)</b>	<b>-</b>	<b>-</b>	<b>463.5</b>
Finance income	197.2	-	-	-	-	-	-	197.2
Finance costs	(335.8)	-	-	24.3	4.5	-	1.1	(305.9)
Fair value gains on derivative financial instruments	-	-	-	-	86.4	-	-	86.4
Net finance costs	(138.6)	-	-	24.3	90.9	-	1.1	(22.3)
<b>Profit/(loss) before tax from continuing operations</b>	<b>352.4</b>	<b>34.2</b>	<b>(45.1)</b>	<b>13.1</b>	<b>85.5</b>	<b>-</b>	<b>1.1</b>	<b>441.2</b>
Tax	(3.3)	3.6	108.8	6.9	(30.7)	48.6	-	133.9
<b>Profit for the year</b>	<b>349.1</b>	<b>37.8</b>	<b>63.7</b>	<b>20.0</b>	<b>54.8</b>	<b>48.6</b>	<b>1.1</b>	<b>575.1</b>

## Reconciliation of consolidated balance sheet at 31 March 2014

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Capitalisation of interest £m	Financial instruments £m	Deferred tax £m	Other items £m	Restated under IFRS £m
<b>Non-current assets</b>								
Intangible assets	-	81.2	-	4.4	-	-	-	85.6
Property, plant and equipment	5,169.0	557.6	3,279.8	327.0	-	-	-	9,333.4
Investments	1,602.6	-	-	-	-	-	-	1,602.6
Derivative financial instruments	-	-	-	-	74.0	-	-	74.0
	6,771.6	638.8	3,279.8	331.4	74.0	-	-	11,095.6
<b>Current assets</b>								
Inventories	10.7	(0.1)	-	-	-	-	-	10.6
Trade and other receivables	479.9	-	-	-	-	-	-	479.9
Investments - money market deposits	67.9	-	-	-	-	-	-	67.9
Cash and cash equivalents	619.5	-	-	-	-	-	-	619.5
Derivative financial instruments	-	-	-	-	30.4	-	-	30.4
	1,178.0	(0.1)	-	-	30.4	-	-	1,208.3
<b>Total assets</b>	7,949.6	638.7	3,279.8	331.4	104.4	-	-	12,303.9
<b>Current liabilities</b>								
Trade and other payables	(492.7)	(3.7)	-	-	76.6	-	(0.9)	(420.7)
Current tax liabilities	(118.8)	-	-	-	-	-	-	(118.8)
Borrowings	(69.7)	-	-	-	(98.4)	-	-	(168.1)
Derivative financial instruments	-	-	-	-	(13.5)	-	-	(13.5)
Provisions for liabilities	-	-	-	-	-	-	(1.2)	(1.2)
	(681.2)	(3.7)	-	-	(35.3)	-	(2.1)	(722.3)
<b>Non-current liabilities</b>								
Borrowings	(6,116.0)	-	-	-	84.2	-	-	(6,031.8)
Derivative financial instruments	-	-	-	-	(571.2)	-	-	(571.2)
Deferred tax liabilities	18.7	(76.3)	(655.9)	(66.3)	78.3	(431.9)	12.3	(1,121.1)
Retirement benefit obligations	(48.6)	-	-	-	-	-	(12.1)	(60.7)
Provisions for liabilities	(36.6)	-	-	-	26.5	-	1.2	(8.9)
Other non-current liabilities	(134.7)	(253.4)	-	-	-	(142.5)	-	(530.6)
	(6,317.2)	(329.7)	(655.9)	(66.3)	(382.2)	(574.4)	1.4	(8,324.3)
<b>Total liabilities</b>	(6,998.4)	(333.4)	(655.9)	(66.3)	(417.5)	(574.4)	(0.7)	(9,046.6)
<b>Net assets</b>	951.2	305.3	2,623.9	265.1	(313.1)	(574.4)	(0.7)	3,257.3
<b>Capital and reserves</b>								
Called-up share capital	10.0	-	-	-	-	-	-	10.0
Revaluation reserve	-	-	2,560.2	-	-	-	-	2,560.2
Retained earnings	941.2	305.3	63.7	265.1	(288.6)	(579.3)	(0.7)	706.7
Hedging reserve	-	-	-	-	(24.5)	4.9	-	(19.6)
<b>Total equity</b>	951.2	305.3	2,623.9	265.1	(313.1)	(574.4)	(0.7)	3,257.3

## Notes to the Group financial statements continued

### 29 Transition to International Financial Reporting Standards (IFRS) continued

Reconciliation of consolidated balance sheet at 1 April 2013

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Capitalisation of Interest £m	Financial Instruments £m	Deferred tax £m	Other Items £m	Restated under IFRS £m
<b>Non-current assets</b>								
Intangible assets	-	73.1	-	3.1	-	-	-	76.2
Property, plant and equipment	5,034.1	502.8	3,324.9	315.2	-	-	-	9,177.0
Investments	1,602.6	-	-	-	-	-	-	1,602.6
Derivative financial instruments	-	-	-	-	138.2	-	-	138.2
	6,636.7	575.9	3,324.9	318.3	138.2	-	-	10,994.0
<b>Current assets</b>								
Inventories	10.0	(0.1)	-	-	-	-	-	9.9
Trade and other receivables	507.6	-	-	-	-	-	-	507.6
Investments - money market deposits	116.4	-	-	-	-	-	-	116.4
Cash and cash equivalents	961.6	-	-	-	-	-	-	961.6
Derivative financial instruments	-	-	-	-	145.2	-	-	145.2
	1,595.6	(0.1)	-	-	145.2	-	-	1,740.7
<b>Total assets</b>	<b>8,232.3</b>	<b>575.8</b>	<b>3,324.9</b>	<b>318.3</b>	<b>283.4</b>	<b>-</b>	<b>-</b>	<b>12,734.7</b>
<b>Current liabilities</b>								
Trade and other payables	(563.8)	(3.4)	-	-	80.6	-	(0.9)	(487.5)
Current tax liabilities	(94.1)	-	-	-	-	-	-	(94.1)
Borrowings	(649.3)	-	-	-	(121.5)	-	-	(770.8)
Derivative financial instruments	-	-	-	-	(112.8)	-	-	(112.8)
Provisions for liabilities	-	-	-	-	-	-	(1.6)	(1.6)
	(1,307.2)	(3.4)	-	-	(153.7)	-	(2.5)	(1,466.8)
<b>Non-current liabilities</b>								
Borrowings	(5,690.3)	-	-	-	(60.6)	-	-	(5,750.9)
Derivative financial instruments	-	-	-	-	(572.6)	-	-	(572.6)
Deferred tax liabilities	(7.0)	(79.9)	(764.7)	(73.2)	110.8	(480.5)	20.0	(1,274.5)
Retirement benefit obligations	(66.3)	-	-	-	-	-	(19.8)	(86.1)
Provisions for liabilities	(34.6)	-	-	-	21.9	-	1.6	(11.1)
Other non-current liabilities	(135.2)	(225.0)	-	-	-	(142.5)	-	(502.7)
	(5,933.4)	(304.9)	(764.7)	(73.2)	(500.5)	(623.0)	1.8	(8,197.9)
<b>Total liabilities</b>	<b>(7,240.6)</b>	<b>(308.3)</b>	<b>(764.7)</b>	<b>(73.2)</b>	<b>(654.2)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>(9,664.7)</b>
<b>Net assets</b>	<b>991.7</b>	<b>267.5</b>	<b>2,560.2</b>	<b>245.1</b>	<b>(370.8)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>3,070.0</b>
<b>Capital and reserves</b>								
Called-up share capital	10.0	-	-	-	-	-	-	10.0
Revaluation reserve	-	-	2,560.2	-	-	-	-	2,560.2
Retained earnings	981.7	267.5	-	245.1	(341.6)	(629.7)	(0.7)	522.3
Hedging reserve	-	-	-	-	(29.2)	6.7	-	(22.5)
<b>Total equity</b>	<b>991.7</b>	<b>267.5</b>	<b>2,560.2</b>	<b>245.1</b>	<b>(370.8)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>3,070.0</b>

## Reconciliation of Company balance sheet and total comprehensive income at 31 March 2014

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Capitalisation of interest £m	Financial instruments £m	Deferred tax £m	Other items £m	Restated under IFRS £m
<b>Non-current assets</b>								
Intangible assets	-	81.2	-	4.4	-	-	-	85.6
Property, plant and equipment	5,169.0	557.6	3,279.8	327.0	-	-	-	9,333.4
Investments	1,602.6	-	-	-	-	-	-	1,602.6
Derivative financial instruments	-	-	-	-	74.0	-	-	74.0
	6,771.6	638.8	3,279.8	331.4	74.0	-	-	11,095.6
<b>Current assets</b>								
Inventories	10.7	(0.1)	-	-	-	-	-	10.6
Trade and other receivables	479.8	-	-	-	-	-	-	479.8
Investments - money market deposits	67.9	-	-	-	-	-	-	67.9
Cash and cash equivalents	618.3	-	-	-	-	-	-	618.3
Derivative financial instruments	-	-	-	-	30.4	-	-	30.4
	1,176.7	(0.1)	-	-	30.4	-	-	1,207.0
<b>Total assets</b>	<b>7,948.3</b>	<b>638.7</b>	<b>3,279.8</b>	<b>331.4</b>	<b>104.4</b>	<b>-</b>	<b>-</b>	<b>12,302.6</b>
<b>Current liabilities</b>								
Trade and other payables	(537.6)	(3.7)	-	-	76.6	-	(0.9)	(465.6)
Current tax liabilities	(118.8)	-	-	-	-	-	-	(118.8)
Borrowings	(69.7)	-	-	-	(98.4)	-	-	(168.1)
Derivative financial instruments	-	-	-	-	(13.5)	-	-	(13.5)
Provisions for liabilities	-	-	-	-	-	-	(1.2)	(1.2)
	(726.1)	(3.7)	-	-	(35.3)	-	(2.1)	(767.2)
<b>Non-current liabilities</b>								
Borrowings	(6,116.0)	-	-	-	84.2	-	-	(6,031.8)
Derivative financial instruments	-	-	-	-	(571.2)	-	-	(571.2)
Deferred tax liabilities	18.7	(76.3)	(655.9)	(66.3)	78.3	(431.9)	12.3	(1,121.1)
Retirement benefit obligations	(48.6)	-	-	-	-	-	(12.1)	(60.7)
Provisions for liabilities	(36.6)	-	-	-	26.5	-	1.2	(8.9)
Other non-current liabilities	(134.7)	(253.4)	-	-	-	(142.5)	-	(530.6)
	(6,317.2)	(329.7)	(655.9)	(66.3)	(382.2)	(574.4)	1.4	(8,324.3)
<b>Total liabilities</b>	<b>(7,043.3)</b>	<b>(333.4)</b>	<b>(655.9)</b>	<b>(66.3)</b>	<b>(417.5)</b>	<b>(574.4)</b>	<b>(0.7)</b>	<b>(9,091.5)</b>
<b>Net assets</b>	<b>905.0</b>	<b>305.3</b>	<b>2,623.9</b>	<b>265.1</b>	<b>(313.1)</b>	<b>(574.4)</b>	<b>(0.7)</b>	<b>3,211.1</b>
<b>Capital and reserves</b>								
Called-up share capital	10.0	-	-	-	-	-	-	10.0
Revaluation reserve	-	-	2,560.2	-	-	-	-	2,560.2
Retained earnings	895.0	305.3	63.7	265.1	(288.6)	(579.3)	(0.7)	660.5
Hedging reserve	-	-	-	-	(24.5)	4.9	-	(19.6)
<b>Total equity</b>	<b>905.0</b>	<b>305.3</b>	<b>2,623.9</b>	<b>265.1</b>	<b>(313.1)</b>	<b>(574.4)</b>	<b>(0.7)</b>	<b>3,211.1</b>
<b>Other comprehensive income</b>								
Profit for the year	348.6	37.8	63.7	20.0	54.8	48.6	1.1	574.6
Total comprehensive income for the year	353.4	37.8	63.7	20.0	57.7	48.6	-	581.2

## Notes to the Group financial statements continued

### 29 Transition to International Financial Reporting Standards (IFRS) continued

Reconciliation of Company balance sheet at 1 April 2013

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Capitalisation of interest £m	Financial instruments £m	Deferred tax £m	Other items £m	Restated under IFRS £m
<b>Non-current assets</b>								
Intangible assets	-	73.1	-	3.1	-	-	-	76.2
Property, plant and equipment	5,034.1	502.8	3,324.9	315.2	-	-	-	9,177.0
Investments	1,602.6	-	-	-	-	-	-	1,602.6
Derivative financial instruments	-	-	-	-	138.2	-	-	138.2
	6,636.7	575.9	3,324.9	318.3	138.2	-	-	10,994.0
<b>Current assets</b>								
Inventories	10.0	(0.1)	-	-	-	-	-	9.9
Trade and other receivables	507.5	-	-	-	-	-	-	507.5
Investments - money market deposits	116.4	-	-	-	-	-	-	116.4
Cash and cash equivalents	924.2	-	-	-	-	-	-	924.2
Derivative financial instruments	-	-	-	-	145.2	-	-	145.2
	1,558.1	(0.1)	-	-	145.2	-	-	1,703.2
<b>Total assets</b>	<b>8,194.8</b>	<b>575.8</b>	<b>3,324.9</b>	<b>318.3</b>	<b>283.4</b>	<b>-</b>	<b>-</b>	<b>12,697.2</b>
<b>Current liabilities</b>								
Trade and other payables	(572.0)	(3.4)	-	-	80.6	-	(0.9)	(495.7)
Current tax liabilities	(94.1)	-	-	-	-	-	-	(94.1)
Borrowings	(649.3)	-	-	-	(121.5)	-	-	(770.8)
Derivative financial instruments	-	-	-	-	(112.8)	-	-	(112.8)
Provisions for liabilities	-	-	-	-	-	-	(1.6)	(1.6)
	(1,315.4)	(3.4)	-	-	(153.7)	-	(2.5)	(1,475.0)
<b>Non-current liabilities</b>								
Borrowings	(5,690.3)	-	-	-	(60.6)	-	-	(5,750.9)
Derivative financial instruments	-	-	-	-	(572.6)	-	-	(572.6)
Deferred tax liabilities	(7.0)	(79.9)	(764.7)	(73.2)	110.8	(480.5)	20.0	(1,274.5)
Retirement benefit obligations	(66.3)	-	-	-	-	-	(19.8)	(86.1)
Provisions for liabilities	(34.6)	-	-	-	21.9	-	1.6	(11.1)
Other non-current liabilities	(135.2)	(225.0)	-	-	-	(142.5)	-	(502.7)
	(5,933.4)	(304.9)	(764.7)	(73.2)	(500.5)	(623.0)	1.8	(8,197.9)
<b>Total liabilities</b>	<b>(7,248.8)</b>	<b>(308.3)</b>	<b>(764.7)</b>	<b>(73.2)</b>	<b>(654.2)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>(9,672.9)</b>
<b>Net assets</b>	<b>946.0</b>	<b>267.5</b>	<b>2,560.2</b>	<b>245.1</b>	<b>(370.8)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>3,024.3</b>
<b>Capital and reserves</b>								
Called-up share capital	10.0	-	-	-	-	-	-	10.0
Revaluation reserve	-	-	2,560.2	-	-	-	-	2,560.2
Retained earnings	936.0	267.5	-	245.1	(341.6)	(629.7)	(0.7)	476.6
Hedging reserve	-	-	-	-	(29.2)	6.7	-	(22.5)
<b>Total equity</b>	<b>946.0</b>	<b>267.5</b>	<b>2,560.2</b>	<b>245.1</b>	<b>(370.8)</b>	<b>(623.0)</b>	<b>(0.7)</b>	<b>3,024.3</b>

## Notes to the reconciliations

## i. Property, plant and equipment (IAS 16 and IAS 38)

*Material differences to UK GAAP*

The most material impact of IAS 16 'Property, Plant and Equipment' relates to the accounting for infrastructure assets within Anglian Water, the Group's regulated water and sewerage company. Under UK GAAP, these assets were accounted for in accordance with the renewals accounting paragraphs of FRS 15 'Tangible Fixed Assets'. Such provisions are not present within IAS 16 and it is therefore necessary to change the way the assets are accounted for on transition to IFRS.

Under renewals accounting as permitted by FRS 15, the water and sewerage infrastructure networks are assumed to be single assets and the depreciation charged is the estimated level of annual expenditure required to maintain the operating capability of the networks. Actual expenditure is then capitalised as incurred.

Renewals accounting is not permitted under IAS 16. The carrying value of infrastructure assets has therefore been recalculated back to privatisation in 1989, as if infrastructure renewals accounting had never been adopted.

Under IFRS, infrastructure expenditure that meets the recognition criteria for property, plant and equipment has been capitalised at cost and depreciated over its expected life. Expenditure relating to repair or maintenance has been expensed.

Infrastructure grants and contributions previously presented as deductions from infrastructure cost under UK GAAP have been allocated to deferred income and amortised over the expected useful lives of the related assets.

Under UK GAAP, no value is recognised for assets transferred or adopted from developers or other third parties at nil consideration. IFRIC 18 'Transfers of Assets from Customers' requires that when an item is transferred from a customer, and it meets the definition of an asset, then it should be recognised at fair value within property, plant and equipment. The deferred credit arising on the adoption of the asset is recognised as other income over the life of the relevant asset.

There are no significant differences between UK GAAP and IFRS in respect of all other fixed assets, including water and water recycling non-infrastructure assets, other than the separate classification of certain assets as intangibles rather than tangible assets in accordance with IAS 38 'Intangible Assets'.

*Impact*

No individual main, sewer or other element of the water and wastewater network forms a significant part of the whole. Accordingly, assets have been grouped by type, and depreciated over their estimated useful life, ranging from 50 to 160 years. Recalculating the carrying value of infrastructure assets under IFRS has resulted in an increase in net assets, after tax, of £305.3 million as at March 2014.

In the year ended 31 March 2014, under IFRS, the annual depreciation charge of infrastructure assets plus the maintenance costs expensed exceeded the total of renewals expenditure recorded under UK GAAP by £34.2 million.

At 31 March 2014, the value of adopted assets recognised in accordance with IFRIC 18 since the date of transition was £20.0 million, with a corresponding credit to other liabilities.

## ii. Revaluation of property, plant and equipment (IFRS 1)

*Material differences to UK GAAP*

Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Group has elected to measure the infrastructure and operational assets of Anglian Water at 1 April 2013, being the date of transition to IFRS, at their fair value and to use that fair value as their deemed cost at that date.

The fair value was calculated by estimating the value in use of Anglian Water, using a discounted cash flow model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value (RCV) of Anglian Water. The resulting fair value, less relevant working capital balances and other adjustments, was then allocated to the individual classes of infrastructure and operational assets.

*Impact*

At date of transition, the value of property, plant and equipment has been increased by £3,324.9 million, comprising an increase in infrastructure assets of £2,885.7 million and an increase in operational assets of £439.2 million.

At 31 March 2014, the impact was to increase property, plant and equipment by £3,279.8 million, and to increase deferred tax liabilities by £655.9 million. The impact on profit for the year to 31 March 2014 was to increase the depreciation charge by £45.1 million, with a deferred tax credit of £108.8 million, principally due to the change in the tax rate used to calculate the deferred tax liability from 23 per cent to 20 per cent.

## Notes to the Group financial statements continued

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### 29 Transition to International Financial Reporting Standards (IFRS) continued

#### iii. Capitalisation of interest (IAS 23)

##### *Material differences to UK GAAP*

Under IFRS the Group is required to capitalise that element of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the costs of that asset. Previously, under UK GAAP, borrowing costs were fully expensed as incurred. The change in policy under IFRS has been applied retrospectively.

Under IFRS the Group capitalises the borrowing costs incurred for the construction of any qualifying assets during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

##### *Impact*

Under IFRS, net assets were £265.1 million higher after tax as at 31 March 2014 and profit before tax was higher by £13.1 million.

#### iv. Financial instruments - accounting for derivatives (IAS 39)

##### *Material differences to UK GAAP*

Under UK GAAP, debt is carried at its hedged amount and the fair values of derivatives are not recognised in the balance sheet. Under IAS 39 'Financial Instruments: Recognition and Measurement', the default treatment is for debt to be carried at amortised cost, while derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the income statement.

This has the potential to introduce non-cash volatility to both the income statement and balance sheet. Therefore, for fair value hedges, IAS 39 allows changes in the recognised value of hedged debt that are attributable to the hedged risk to be adjusted through the income statement. This is only permitted where the hedge and debt is considered to meet the hedge accounting criteria defined by IAS 39.

In the case of cash flow hedges, movements in the fair value of derivatives are initially recognised within other comprehensive income until they can be recycled through the income statement to match the future income statement effect of changes in the hedged risk. In order to apply this treatment, it must be demonstrated that the derivative has been and will continue to be an effective hedge of the hedged risk within the underlying asset or liability. Any hedge ineffectiveness, provided it is within the range deemed acceptable by IAS 39, is recognised immediately within the income statement.

Interest rate swap agreements are used to manage interest rate exposure, while the Group enters into foreign exchange contracts and foreign exchange options to manage its exposure to fluctuations in currency rates. All financial derivatives are recognised in the balance sheet at fair value.

Hedge accounting is applied where possible. Therefore, where derivatives that are designated as fair value hedges meet the hedge effectiveness criteria specified in IAS 39, changes in the recognised value of hedged debt that are attributable to the hedged risk are adjusted through the income statement to offset changes in the fair value of derivatives.

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity, and released to the income statement in the periods when the hedged item will affect profit or loss.

Where changes in the fair value of a derivative differ to changes in the fair value of the hedged item, the hedge ineffectiveness is recorded in the income statement.

New borrowings are stated at net proceeds received after the deduction of issue costs. Under UK GAAP, the issue costs of debt instruments are amortised at a constant rate over the life of the instrument, whereas under IFRS the costs are amortised using the 'effective interest rate' method.

##### *Impact*

As a result of applying IAS 39, there was a non-cash credit to the income statement of £85.5 million for the year ended 31 March 2014. This primarily related to RPI swaps, which, although economically highly effective, do not qualify for hedge accounting under the strict definition of IAS 39. This means that there is the potential for future volatility through the income statement on these instruments although this will ultimately net to match the cumulative accounting impact under UK GAAP when the instrument matures.

The majority of the Group's other derivatives currently qualify for hedge accounting under IAS 39.

The overall reduction in net assets at 31 March 2014, as result of IAS 39 and its impact on derivative financial instruments, is £391.4 million before the impact of deferred tax.

#### v. Deferred tax (IAS 12)

##### *Material differences to UK GAAP*

FRS 19 'Deferred Tax' permits, but does not require, deferred tax assets or liabilities to be discounted and as a result the Group chose to discount its net deferred tax liability. However, IAS 12 'Income Taxes' does not permit discounting of deferred tax in any circumstances. This is of particular significance to a capital intensive utility business, such as Anglian Water, where any reversal of timing differences is likely to be deferred long into the future due to the long asset lives of its network assets.

Under IFRS, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Under UK GAAP, the treatment of advance corporation tax (ACT) is specifically defined in FRS 16 'Current Tax'. Subject to there being suitable deferred tax liabilities, the ACT asset is in effect recognised by offset against such liabilities. Under IAS 12, ACT is recognised as a deferred tax asset to the extent that it is probable that future taxable profit will be available against which the tax credit can be utilised. IAS 12 also states that it is probable that future taxable profit will be available where there are sufficient suitable timing differences that would reverse in appropriate periods. ACT has been surrendered to Anglian Water Services Limited from another Anglian Water Group Limited undertaking, but no liability for payment for the ACT has been recognised under UK GAAP due to the uncertainty over the liability arising. Under IFRS, the surrendered ACT can be carried forward indefinitely and therefore, on transition to IFRS, a liability has been recognised in respect of payments to other Anglian Water Group Limited undertakings for the future utilisation of the ACT, in addition to continuing to recognise the ACT as a deferred tax asset.

*Impact*

The prohibition of discounting deferred tax liabilities resulted in an increase in the balance sheet deferred tax liability of £348.7 million at 31 March 2014 and a corresponding reduction in net assets. Recognition of deferred tax based on 'temporary' rather than 'timing' differences has increased the deferred tax liability by £83.2 million at 31 March 2014. In addition, a liability of £142.5 million has been recognised in respect of utilisation of future ACT.

The deferred tax effect on each of the other IFRS adjustments to the balance sheet has been recognised, reducing the total deferred tax liability by £0.2 million.

vi. Group cash flow statement

The Group cash flow statement prepared in accordance with FRS 1 presents substantially the same information as that required under IFRS. However, under IFRS there are certain differences from UK GAAP with regard to the classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, equity dividend paid, management of liquid resources and financing. Under IFRS, only three categories of cash flow activity are reported: operating activities, investing activities and financing activities.

Under IFRS, items that under UK GAAP would be included within management of liquid resources fall within the definition of cash and cash equivalents.

# 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:

- Anglian Water Services Limited's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### What we have audited

Anglian Water Services Limited's financial statements comprise:

- the Group and Company balance sheets as at 31 March 2015;
- the Group income statement and Group statement of other comprehensive income for the year then ended;
- the Group and Company cash flow statement for the year then ended;
- the Group and Company statement of changes in equity; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual report and accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRS as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### Area of focus

##### Bad debt provision

It is a characteristic of the water industry that some customers pay their bills slowly or are unable to pay.

To deal with this, management's bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Whilst the UK economic growth continues to be fragile, 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.

#### Our audit approach

##### Materiality

Overall Group materiality: £16 million (2014: £16 million) which represents approximately 5% of profit before IAS 39 fair value adjustments and tax.

##### Audit scope

The Group comprises Anglian Water Services Limited (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 these companies were subject to a full statutory audit by the Group audit engagement team.

##### Areas of focus

- Bad debt provision on aged water and sewerage billing across the business.
- Income accruals for metered customers.
- Classification of costs between capital and revenue.
- Transition to IFRS, including accounting policy changes and additional disclosure requirements.
- Treasury, specifically accounting for the fair value of derivatives under IFRS.

##### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

#### How our audit addressed the area of focus

We evaluated the appropriateness of the level of bad debt provisioning by comparing historic collection performance for ageing categories against the current level of provision and found it to be *in line with the historic collection experience*.

We considered the recoverability of debt secured via charging orders and the appropriateness of provisioning rates used for this element of the debt and found the historic collection performance to be consistent with the provisioning model.

We also tested the ageing of the customer debt to which the bad debt provision rates were applied and found no material misstatements in the ageing in the ledger.

We used the Group's KPIs in relation to bad debt risk, including leading and lagging indicators in relation to customer debt profile and historic cash collection, to assess ongoing collection performance against the judgements made in the provision and did not note any significant differences or unusual trends.

**Area of focus****Income accruals for metered customers**

Revenue from a portion of customers with water meters is estimated at the year end, the estimate being based on management judgement and historic consumption rates. Management also utilises various methods and tools to sense-check the estimate in determining the final accrual recognised. The significance of this issue meant that we also took it into account when considering the risk of fraud in revenue recognition. (Refer also to note 20) to the financial statements.)

**How our audit addressed the area of focus**

We evaluated the relevant IT systems and were satisfied with the results of our testing of the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements.

We also evaluated and tested the key assumptions used in the estimation of unbilled revenue, including average water and sewerage usage by tariff, and compared the quantities estimated with the change in the actual volume of water input into the distribution network. Aggregate meter read data was used to verify the year on year consumption change in the model.

We compared the level of the accrued income with last year and reconciled the movements based on price changes, increases in the number of customers, demand changes and the specific profiles of billings/meter readings around the year end and were able to obtain evidence or explanations for changes.

We also carried out procedures to understand the output of the corroboration tools employed by the Group to assess the accuracy of the estimate. This included a mass simulation exercise (i.e. a bottom up recalculation) performed as at the year end. To test this, we independently took the subsequent billing of approximately 40,000 customers and used our data tools to compare their post year end bills to the simulated accrued income. These procedures did not indicate any material issues with the year end estimates. In addition, we used a different population of 5,000 customers (randomly selected by Anglian Water) whose meters are read monthly to compare the consumption levels for these customers estimated by management to actual results. Again, the actual billings were materially in line with management's expectations. Finally, we tested a sample of journal entries posted to revenue accounts to identify unusual or irregular items that may be indicative of bias and were able to obtain suitable evidence or explanations for all items selected.

**Cost capitalisation**

The allocation of costs between capital and non-capital spend is subjective in many instances. Given the magnitude of capital spend, there is a risk that incorrect classification could give rise to a significant misstatement.

**Transition to IFRS**

The Company transitioned from UK GAAP to IFRS during the year. This resulted in accounting policy changes and additional disclosure requirements. The transition statement in note 29 details the adjustments which include:

- Revaluing the Property, Plant and Equipment ("PPE") at the transition date to fair value, which also gave rise to a deferred tax liability;
- Recognising derivative financial instruments at fair value;
- Capitalising borrowing costs attributable to the cost of assets; and
- Removal of discounting on deferred tax.

**Treasury**

Under IFRS all the derivatives used by the Group are recognised at fair value on the balance sheet. The derivatives accounted for at fair value through the income statement are mainly FX swaps, swaptions and energy derivatives. Due to the complexity of these instruments there is a risk that the valuations are inaccurate.

Where possible, derivatives have been designated in effective hedge relationships for interest, currency and energy price risks to reduce volatility in the income statement. These are designated as either cash flow hedges or fair value hedges. There is a risk that hedge accounting has been applied when the requirements of IAS 39 have not been met and therefore the fair value movements should have been taken to the income statement.

We evaluated the relevant IT systems and were satisfied with the results of our testing of the internal controls over the completeness, accuracy and existence of costs capitalised in the financial statements.

A sample of capital additions was also successfully agreed to supporting evidence which supported their quantum and classification as capital items. This included own work capitalised, which was primarily tested to timesheets and charge out rates.

The IFRS accounting policies, adjustments and disclosures were tested to check that they were complete and accurate, including the opening balance sheet positions. Specifically:

- The valuations specialists in our team assessed the value in use analysis of PPE. The 10% premium added to the regulatory capital value was in line with industry practice and consequently within our expected range;
- We re-performed a sample of derivative valuations and the proposed hedging relationships were reassessed to check that they were eligible under IAS 39;
- Interest costs on borrowing relating to capital projects were recalculated using the relevant cost of debt; and
- We checked that deferred tax balances were no longer being discounted.

Overall, we were satisfied that the IFRS accounting policies were appropriately applied and that the disclosures were adequate.

We re-performed a sample of derivative valuations across all instrument types and currency pairs using our in-house valuation software and found these to be materially correct.

Where hedge accounting was applied, the hedge was tested against the eligibility criteria of IAS 39, so we were able to confirm that the hedge documentation was appropriate and the prospective and retrospective effectiveness tested had been structured correctly.

# Independent auditors' report continued

## How we tailored the audit scope

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 were 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.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

<b>Overall Group materiality</b>	£16 million (2014: £16 million).
<b>How we determined it</b>	Approximately 5% of profit before IAS 39 fair value adjustments and tax.
<b>Rationale for benchmark applied</b>	We applied this benchmark, which is an adjusted version of the generally accepted auditing practice of 5% of profit before tax. Prior to its adoption of IFRS, the Group did not account for derivatives through the income statement and the exclusion of IAS 39 fair value movements was therefore considered to be the nearest equivalent measure to the previously-applied benchmark, meaning that we had a consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2014: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## 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 120, 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 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 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 Company's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

#### *Companies Act 2006 opinion*

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.

### *ISAs (UK & Ireland) reporting*

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is:	We have no exceptions to report arising from this responsibility.
• 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 Company acquired in the course of performing our audit; or	
• otherwise misleading.	

The statement given by the directors on page 118, in accordance with provision C.1.1 of the Code, 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 Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
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The section of the Annual Report on page 80, as required by provision C.3.8 of the Code, 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.
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### 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

## Other voluntary reporting

### Opinion on additional disclosures

#### *Directors' Remuneration Report*

The 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 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.

Matter on which we have agreed to report by exception

*Corporate governance statement*

The Company has chosen voluntarily to comply with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the 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 set out on page 121, 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.

What an audit of financial statements involves

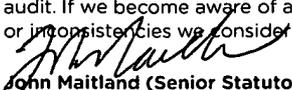
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

  
**John Maitland (Senior Statutory Auditor)**

**For and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors

Birmingham  
29 May 2015

## Regulatory accounts and required regulatory information

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The regulatory accounts and required regulatory information on pages 182 to 205 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, which continues to be based on UK Generally Accepted Accounting Practice (UK GAAP).

There are differences between 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 208.

## 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 that 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 that 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 that 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

	2015			2014		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Turnover</b>	<b>1,226.9</b>	<b>17.4</b>	<b>1,244.3</b>	1,197.9	16.1	1,214.0
Operating costs	(471.2)	(8.8)	(480.0)	(444.0)	(8.4)	(452.4)
Infrastructure renewals charge	(92.6)	-	(92.6)	(90.4)	-	(90.4)
Historical cost depreciation	(186.2)	(1.0)	(187.2)	(180.7)	(0.7)	(181.4)
Operating income	0.7	-	0.7	1.2	-	1.2
<b>Operating profit</b>	<b>477.6</b>	<b>7.6</b>	<b>485.2</b>	484.0	7.0	491.0
Net interest payable	(101.6)	-	(101.6)	(139.1)	-	(139.1)
<b>Profit on ordinary activities before taxation</b>	<b>376.0</b>	<b>7.6</b>	<b>383.6</b>	344.9	7.0	351.9
Taxation:						
- current	(9.5)	(1.6)	(11.1)	(20.8)	(1.6)	(22.4)
- deferred	(67.7)	-	(67.7)	19.1	-	19.1
<b>Profit on ordinary activities after taxation</b>	<b>298.8</b>	<b>6.0</b>	<b>304.8</b>	343.2	5.4	348.6
<b>Profit for the year</b>	<b>298.8</b>	<b>6.0</b>	<b>304.8</b>	343.2	5.4	348.6
Dividends	(366.5)	(6.0)	(372.5)	(389.0)	(5.4)	(394.4)
<b>Transfer from reserves</b>	<b>(67.7)</b>	<b>-</b>	<b>(67.7)</b>	(45.8)	-	(45.8)

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

for the year ended 31 March

	2015 £m	2014 £m
<b>Profit on ordinary activities after taxation</b>	<b>298.8</b>	<b>343.2</b>
Actuarial (loss)/gain recognised on the pension schemes	(1.1)	5.9
Movement on deferred tax relating to the actuarial (loss)/gain on the pension schemes	0.2	(1.3)
Impact of change in tax rate on deferred tax on pension schemes	-	0.2
<b>Total recognised gains and losses for the year</b>	<b>297.9</b>	<b>348.0</b>

# Regulatory historical cost balance sheet

as at 31 March

	2015			2014		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	5,289.1	13.0	5,302.1	5,126.6	12.9	5,139.5
Investments						
- loan to Group company	1,602.6	-	1,602.6	1,602.6	-	1,602.6
- other	-	-	-	-	-	-
<b>Total fixed assets</b>	<b>6,891.7</b>	<b>13.0</b>	<b>6,904.7</b>	<b>6,729.2</b>	<b>12.9</b>	<b>6,742.1</b>
<b>Current assets</b>						
Infrastructure renewals prepayment	1.0	-	1.0	29.5	-	29.5
Other current assets	1,278.1	1.6	1,279.7	1,193.8	1.6	1,195.4
<b>Total current assets</b>	<b>1,279.1</b>	<b>1.6</b>	<b>1,280.7</b>	<b>1,223.3</b>	<b>1.6</b>	<b>1,224.9</b>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(254.7)	-	(254.7)	(69.7)	-	(69.7)
Other creditors	(697.2)	(14.6)	(711.8)	(633.2)	(14.5)	(647.7)
<b>Total creditors: amounts falling due within one year</b>	<b>(951.9)</b>	<b>(14.6)</b>	<b>(966.5)</b>	<b>(702.9)</b>	<b>(14.5)</b>	<b>(717.4)</b>
<b>Net current assets</b>	<b>327.2</b>	<b>(13.0)</b>	<b>314.2</b>	<b>520.4</b>	<b>(12.9)</b>	<b>507.5</b>
<b>Total assets less current liabilities</b>	<b>7,218.9</b>	<b>-</b>	<b>7,218.9</b>	<b>7,249.6</b>	<b>-</b>	<b>7,249.6</b>
<b>Creditors: amounts falling due after one year</b>						
Borrowings	(6,118.6)	-	(6,118.6)	(6,116.0)	-	(6,116.0)
<b>Total creditors: amounts falling due after one year</b>	<b>(6,118.6)</b>	<b>-</b>	<b>(6,118.6)</b>	<b>(6,116.0)</b>	<b>-</b>	<b>(6,116.0)</b>
Provisions for liabilities and charges	(263.9)	-	(263.9)	(228.6)	-	(228.6)
<b>Net assets employed</b>	<b>836.4</b>	<b>-</b>	<b>836.4</b>	<b>905.0</b>	<b>-</b>	<b>905.0</b>
<b>Capital and reserves</b>						
Called up share capital	10.0	-	10.0	10.0	-	10.0
Profit and loss account	826.4	-	826.4	895.0	-	895.0
<b>Capital and reserves</b>	<b>836.4</b>	<b>-</b>	<b>836.4</b>	<b>905.0</b>	<b>-</b>	<b>905.0</b>

The financial statements were approved by the Board of Directors on 29 May 2015 and signed on its behalf by:

**Peter Simpson**  
Chief Executive



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



## 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

The statutory accounts for the year ended 31 March 2015 have been prepared on an International Financial Reporting Standards (IFRS) basis for the first time. This gives rise to significant differences between the regulatory accounts, which are UK GAAP based and the statutory accounts as explained below:

(i) Turnover

There is no difference in the turnover of regulatory or statutory accounts.

(ii) Operating profit

	2015 £m
<b>Per statutory accounts</b>	<b>451.8</b>
Items in statutory operating profit not in regulatory operating profit	
Infrastructure grants and contributions are allocated to deferred income net of amortisation	(3.6)
Depreciation of infrastructure assets over their estimated useful lives	27.4
Depreciation arising on capitalised borrowing costs	11.7
Depreciation arising on fixed asset revaluation	45.2
Fair value losses on energy hedges	0.8
Items in regulatory operating profit not in statutory operating profit	
Difference between infrastructure renewals charge and infrastructure renewals expenditure	(48.1)
<b>Per regulatory accounts</b>	<b>485.2</b>

(iii) Fixed assets

	2015 £m
<b>Per statutory accounts</b>	<b>9,447.0</b>
Items in statutory fixed assets not in regulatory fixed assets	
Revaluation of fixed assets on transition to IFRS	(3,234.4)
Grants and contributions transferred from fixed assets to deferred income	(308.5)
Capitalisation of borrowing costs	(331.0)
Infrastructure depreciation under IFRS	438.2
Reclassification of telemetry and M&E inventories under PPE	(0.1)
Impact of adopted assets	(32.6)
Infrastructure renewal prepayment	(1.0)
Items in regulatory fixed assets not in statutory fixed assets	
Cumulative difference between infrastructure renewals charge and infrastructure renewals expenditure	(788.1)
Recognition of intangible assets	112.6
<b>Per regulatory accounts</b>	<b>5,302.1</b>

# 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 that 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 188).

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 182 and 184. A current cost profit and loss account and current cost balance sheet for the appointed business is shown on pages 192 and 193. Other current cost disclosures appear on pages 194 to 204. Additional information required by the Licence is shown on pages 186 to 191.

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 185.

## 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 that 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 186, 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 IFRS, which does not permit infrastructure renewals accounting.

### (b) Capitalisation policy

IFRS is used for reporting accounts for statutory purposes and UK GAAP as modified by Ofwat Regulatory Accounting Guidelines for regulatory reporting requirements.

Fixed assets are capitalised in accordance with FRS 15 '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 that 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.

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 subsequently found 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 issued 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 £26.3 million (2014: £20.4 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 2014 included a measured income accrual of £254.6 million (year ended 31 March 2013: £243.7 million). The value of billing recognised in the year ended 31 March 2015 for the prior year was £246.0 million. This has resulted in the recognition in the current year's turnover of an estimation difference for the prior year of £8.6 million (2014: £17.5 million), representing 1 per cent of current year measured turnover (2014: 2.2 per cent) and within acceptable tolerances for accounting estimates
- (ii) A change in billing frequency 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 household/non-household measured income accrual in the current year is 33.5 per cent (2014: 34.1 per cent) of measured turnover
- (iii) Turnover for the year ended 31 March 2015 amounted to £1,226.9 million (2014: £1,197.9 million) compared to a Final Determination target of £1,220.3 million (2014: £1,190.6 million), an over-performance of £6.6 million (2014: over-performance of £7.3 million). However, we abated K (please see page 208, the glossary) (0.9 per cent) for 14/15 which had the effect of reducing revenue by £9.6 million in the year ended 31 March 2015. Therefore the notional outperformance compared to the Final Determination is £16.2 million. This outperformance is primarily due to a lower than expected metering programme, with 76.8 per cent of households paying on measured charges compared to a target in the Final Determination of 81.0 per cent. This results in smaller than expected revenue losses, which occur when customers opt for a meter. The impact has been partially offset by the reduction in new customers compared to the forecasts made in the Final Determination.

## Additional information required by the Licence continued

### 5 Income disclosures continued

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.

In relation to the number of billed properties, it is below the level assumed in the Final Determination by approximately 35,000 and 43,000 for water and sewerage respectively. This is primarily as a result of the slower than anticipated recovery in rates of new development.

### 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 86.

### 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.

### 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) A loan of £1,602.6 million (2014: £1,602.6 million) was receivable from Anglian Water Services Holdings Limited. Receivables totalling £2.0 million were outstanding from other group companies at 31 March 2015 (2014: £0.6 million).

(b) An amount payable of £45.4 million was owed to Anglian Water Services Financing Plc at 31 March 2015 (2014: £45.1 million).

Sums borrowed, including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2015, 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	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	5.013
<b>Sub-total carried forward</b>	<b>2,186.8</b>		

Type of loan	Principal amount (iv) £m	Repayment date	Interest rate %
<b>Sub-total brought forward</b>	<b>2,186.8</b>		
Index-linked (i)	232.3	2020	4.125
Index-linked (i)	295.3	2032	3.070
Index-linked (i)	89.0	2032	3.070
Index-linked (i)	110.7	2024	3.666
Index-linked (i)	546.6	2035	2.400
Index-linked (i)	66.2	2046	1.700
Index-linked (i)	66.0	2046	1.700
Index-linked (i)	53.0	2056	1.7146
Index-linked (i)	66.2	2056	1.6777
Index-linked (i)	79.5	2049	1.7903
Index-linked (i)	132.0	2057	1.3784
Index-linked (i)	66.0	2056	1.3825
Index-linked (i)	94.4	2062	1.449
Index-linked (i)	63.0	2055	1.520
Index-linked (i)	60.5	2019	1.626
Index-linked (i)	59.5	2020	1.300
Index-linked (i)	152.3	2045	2.262
Index-linked (i)	25.0	2021	1.270
Index-linked (i)	81.0	2027	0.530
Index-linked (i)	81.0	2027	0.790
Index-linked (i)	15.9	2022	1.370
Index-linked (i)	53.2	2033	2.050
Index-linked (i)	157.4	2028	0.000
Index-linked (i)	36.5	2042	1.141
Index-linked (i)	66.2	2029	0.410
Index-linked (i)	125.8	2029	0.100
Index-linked (i)	60.1	2030	0.010
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 0.88750
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)	33.7	2024	-
Index-linked swaps (ii)	39.3	2030	-
Index-linked swaps (ii)	31.3	2057	-
Index-linked swaps (ii)	17.1	2059	-
Index-linked swaps (ii)	11.4	2043	-
Index-linked swaps (ii)	0.9	2061	-
Swaption	-	2046	-
Swaption	-	2046	-
<b>Total</b>	<b>6,355.9</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 Asset Management Plan period 31 March 2020) and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows. The Directors consider this cash based approach provides an acceptable return to the equity investors while ensuring the liquidity requirements of the business are fully met. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water Services Limited and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraint. This policy is consistent with Condition F of the Licence.

A dividend of £366.5 million is payable for the year (2014: £389.0 million) in respect of the appointed business. Of this dividend, £192.3 million (2014: £192.3 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 (2014: £1,602.6 million) (see note 9(a) on page 188).

#### (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 2015 amounted to £7,073.7 million (2014: £6,621.3 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 (2014: £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 2015 (2014: £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	0.7
CEO	AWG Group Limited	Actual costs	0.8
Corporate responsibility and communications	AWG Group Limited	Actual costs	0.5
Treasury charges	AWG Group Limited	Actual costs	0.6
Commercial time and advice	AWBN	Actual costs	0.4
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
Land rental	Alpheus Environmental Ltd	Actual costs	0.1
Sewerage, tankering and transport services	AWG Group Limited and Alpheus Environmental Ltd	Actual costs	0.1
			3.8

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	0.2
Internal audit services	AWG Group Limited	-	Negotiated	0.5
Insurance administration	AWG Group Limited	-	Negotiated	0.8
Income protection costs	AWG Group Limited	-	Negotiated	0.3
Taxation services	AWG Group Limited	-	Negotiated	0.2
External audit services	AWG Group Limited	-	Negotiated	0.2
Pension and admin advice	AWG Group Limited	-	Pass through	0.1
Miscellaneous items	AWG Group Limited	-	Pass through	0.1
Building rental	AWG Group Limited	-	Pass through	0.1
Rental of office accommodation	Ambury Developments	0.5	Other market testing	0.2
10-year office lease	Ambury Developments	0.5	Other market testing	0.1
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 (2014: £40,000) to WaterAid, its recognised charity. No political donations were made (2014: £nil).

The Company made available £0.38 million (2014: £0.61 million) to the Anglian Water Assistance Fund, which paid a total of £0.43 million (2014: £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

	2015			2014		
	Water £m	Sewerage £m	Total £m	Water £m	Sewerage £m	Total £m
<b>Turnover</b>						
Unmeasured						
- household	113.9	185.5	299.4	121.1	191.6	312.7
- non-household	0.5	1.3	1.8	0.7	1.4	2.1
Measured						
- household	250.6	405.7	656.3	239.9	390.2	630.1
- non-household	86.3	82.9	169.2	77.5	77.0	154.5
Trade effluent	-	8.2	8.2	-	7.3	7.3
Bulk supplies/inter-company payments	6.5	1.8	8.3	7.7	1.7	9.4
Third-party services (including non-potable water)	12.6	-	12.6	12.2	-	12.2
Other sources	36.6	34.5	71.1	36.2	33.4	69.6
<b>Total turnover</b>	<b>507.0</b>	<b>719.9</b>	<b>1,226.9</b>	<b>495.3</b>	<b>702.6</b>	<b>1,197.9</b>
<b>Current cost operating costs</b>						
- wholesale	(329.5)	(475.3)	(804.8)	(313.8)	(463.2)	(777.0)
- retail	(38.0)	(46.0)	(84.0)	(36.5)	(45.8)	(82.3)
Operating (loss)/income	(0.2)	(0.1)	(0.3)	0.3	0.2	0.5
Working capital adjustment	(0.3)	(0.3)	(0.6)	(0.2)	(0.2)	(0.4)
<b>Current cost operating profit</b>	<b>139.0</b>	<b>198.2</b>	<b>337.2</b>	<b>145.1</b>	<b>193.6</b>	<b>338.7</b>
Net interest			(101.6)			(139.1)
Financing adjustment			7.2			10.2
<b>Current cost profit before taxation</b>			<b>242.8</b>			<b>209.8</b>
Net revenue movement in/(out) of tariff basket	0.7	0.7	1.4	-	0.7	0.7
Back billing amount identified	-	-	-	-	-	-

The notes on pages 195 to 204 form part of these current cost financial statements.

## Current cost balance sheet for the appointed business

for the year ended 31 March

	2015 £m	2014 £m
<b>Fixed assets</b>		
Tangible assets	41,693.6	41,270.0
Third-party contributions since 31 March 1990	(9,779.8)	(9,660.7)
Investments		
- loan to group company	1,602.6	1,602.6
- other	-	-
<b>Total fixed assets</b>	<b>33,516.4</b>	<b>33,211.9</b>
<b>Current assets</b>		
Infrastructure renewals prepayment	1.0	29.5
Other current assets	1,278.1	1,193.8
<b>Total current assets</b>	<b>1,279.1</b>	<b>1,223.3</b>
<b>Creditors: amounts falling due within one year</b>		
Short-term borrowings	(254.7)	(69.7)
Other creditors	(698.1)	(634.5)
<b>Total creditors falling due within one year</b>	<b>(952.8)</b>	<b>(704.2)</b>
<b>Net current assets</b>	<b>326.3</b>	<b>519.1</b>
<b>Creditors: amounts falling due after more than one year</b>		
Loans and other borrowings	(6,118.6)	(6,116.0)
<b>Total creditors falling due after more than one year</b>	<b>(6,118.6)</b>	<b>(6,116.0)</b>
Provision for liabilities and charges	(117.1)	(85.2)
<b>Net assets employed</b>	<b>27,607.0</b>	<b>27,529.8</b>
<b>Capital and reserves</b>		
Called-up share capital	10.0	10.0
Profit and loss account	(802.9)	(601.1)
Current cost reserve	28,399.9	28,120.9
<b>Total capital and reserves</b>	<b>27,607.0</b>	<b>27,529.8</b>

The notes on pages 195 to 204 form part of these current cost financial statements.

## Current cost cash flow statement

for the year ended 31 March

	2015 Appointed £m	2014 Appointed £m
<b>Current cost operating profit</b>	<b>337.2</b>	338.7
Working capital adjustment	0.6	0.4
Movement in working capital	14.2	(10.9)
Current cost depreciation	325.0	325.1
Current cost loss/(profit) on sale of fixed assets	0.3	(0.5)
Infrastructure renewals charge	92.6	90.4
Movement in provision	(24.7)	(24.0)
<b>Net cash flow from operating activities</b>	<b>745.2</b>	719.2
Returns on investments and servicing of finance	(23.0)	9.8
Taxation received	0.5	-
Tax settlement from non-appointed business	1.6	1.6
<b>Capital expenditure and financial investment</b>		
Gross cost of purchase of fixed assets	(373.2)	(395.4)
Receipts of grants and contributions	32.8	28.8
Infrastructure renewals expenditure	(64.3)	(69.0)
Disposal of fixed assets	1.8	1.7
<b>Net cash outflow from investing activities</b>	<b>(402.9)</b>	(433.9)
Equity dividends paid	(366.5)	(436.5)
Net cash inflow from management of liquid resources	46.7	267.0
<b>Net cash inflow before financing</b>	<b>1.6</b>	127.2
<b>Net cash inflow/(outflow) from financing</b>	<b>115.2</b>	(251.0)
<b>Increase/(decrease) in cash</b>	<b>116.8</b>	(123.8)

## Notes to the current cost financial statements

### 1 Current cost accounting policies

#### (a) General

These financial statements have been prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat for modified real-terms financial statements suitable for regulation in the water industry.

They measure profitability on the basis of real financial capital maintenance, in the context of assets that are valued at their current cost value to the business.

The regulatory accounts are separate from the statutory financial statements of the Company, that are prepared under IFRS. 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 186 and 187 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 reallocation 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 has 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 15/02 issued in March 2015. 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.

##### (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.

## Notes to the current cost financial statements continued

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(d) Tangible fixed assets continued

*(iv) Surplus land*

Surplus land is valued at recoverable amount, taking into account that part of any proceeds are 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 2015 (wholesale business only)

	Water				Sewerage					Water and sewerage	
	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water subtotal £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage subtotal £m	Total £m
<b>Operating expenditure</b>											
Power	7.0	3.3	5.7	10.8	26.8	7.7	20.9	1.0	-	29.6	56.4
Income treated as negative expenditure	-	(0.1)	(0.1)	(0.2)	(0.4)	(0.1)	(0.5)	(4.6)	-	(5.2)	(5.6)
Service charges	5.1	0.4	-	-	5.5	1.1	5.6	-	-	6.7	12.2
Bulk supply imports	-	-	1.3	-	1.3	-	-	-	-	-	1.3
Other operating expenditure	12.5	3.3	22.0	48.2	86.0	44.5	61.7	54.4	7.0	167.6	253.6
Local authority rates	3.4	0.6	6.7	32.5	43.2	0.1	21.5	4.5	-	26.1	69.3
<b>Total operating expenditure excluding third-party services</b>	<b>28.0</b>	<b>7.5</b>	<b>35.6</b>	<b>91.3</b>	<b>162.4</b>	<b>53.3</b>	<b>109.2</b>	<b>55.3</b>	<b>7.0</b>	<b>224.8</b>	<b>387.2</b>
<b>Capital maintenance</b>											
Infrastructure renewals charge	2.4	0.2	-	45.5	48.1	44.5	-	-	-	44.5	92.6
Current cost depreciation	12.2	1.0	56.8	42.9	112.9	45.6	136.0	26.5	1.4	209.5	322.4
Amortisation of deferred credits	-	-	(2.9)	(0.7)	(3.6)	(0.2)	(5.2)	(0.1)	-	(5.5)	(9.1)
<b>Total capital maintenance excluding third-party services</b>	<b>14.6</b>	<b>1.2</b>	<b>53.9</b>	<b>87.7</b>	<b>157.4</b>	<b>89.9</b>	<b>130.8</b>	<b>26.4</b>	<b>1.4</b>	<b>248.5</b>	<b>405.9</b>
<b>Third-party services</b>											
Operating expenditure	1.6	1.0	1.3	1.4	5.3	-	0.5	0.2	0.1	0.8	6.1
Current cost depreciation	-	-	4.4	-	4.4	-	1.2	-	-	1.2	5.6
<b>Total operating costs</b>	<b>44.2</b>	<b>9.7</b>	<b>95.2</b>	<b>180.4</b>	<b>329.5</b>	<b>143.2</b>	<b>241.7</b>	<b>81.9</b>	<b>8.5</b>	<b>475.3</b>	<b>804.8</b>

**2 Operating cost analysis continued**  
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 subtotal £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage subtotal £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>

for the year ended 31 March 2015 (retail business only)

	Household £m	Non- household £m	Total £m
<b>Operating expenditure</b>			
Customer services	13.7	2.6	16.3
Debt management	8.3	0.9	9.2
Doubtful debts	30.2	2.8	33.0
Meter reading	3.2	0.4	3.6
Other operating expenditure	12.7	2.9	15.6
Local authority rates	0.2	-	0.2
<b>Total operating expenditure</b>	<b>68.3</b>	<b>9.6</b>	<b>77.9</b>
<b>Capital maintenance</b>			
Current cost depreciation	5.2	0.9	6.1
<b>Total capital maintenance</b>	<b>5.2</b>	<b>0.9</b>	<b>6.1</b>
<b>Total operating costs</b>	<b>73.5</b>	<b>10.5</b>	<b>84.0</b>
<b>Debt written off</b>	<b>24.1</b>	<b>2.2</b>	<b>26.3</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>

**3 Current cost analysis of fixed assets**

for the year ended 31 March 2015 (wholesale business only)

	Water				Sewerage				Water and sewerage		
	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water subtotal £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage subtotal £m	Total £m
<b>Non-infrastructure assets</b>											
<b>Gross replacement cost</b>											
At 1 April 2014	360.2	32.7	1,757.1	1,438.9	3,588.9	2,482.1	4,734.9	698.5	22.2	7,937.7	11,526.6
RPI adjustment	3.3	0.3	15.8	13.0	32.4	22.4	42.7	6.3	0.2	71.6	104.0
Disposals	(0.3)	-	(1.0)	(13.4)	(14.7)	(1.5)	(1.3)	(0.7)	(0.1)	(3.6)	(18.3)
Additions	11.3	2.3	64.7	34.7	113.0	27.0	99.7	34.3	1.0	162.0	275.0
<b>At 31 March 2015</b>	<b>374.5</b>	<b>35.3</b>	<b>1,836.6</b>	<b>1,473.2</b>	<b>3,719.6</b>	<b>2,530.0</b>	<b>4,876.0</b>	<b>738.4</b>	<b>23.3</b>	<b>8,167.7</b>	<b>11,887.3</b>
<b>Depreciation</b>											
At 1 April 2014	(229.1)	(21.5)	(1,130.8)	(830.8)	(2,212.2)	(1,743.6)	(3,221.5)	(403.1)	(17.5)	(5,385.7)	(7,597.9)
RPI adjustment	(2.1)	(0.2)	(10.2)	(7.5)	(20.0)	(15.7)	(29.1)	(3.6)	(0.2)	(48.6)	(68.6)
Disposals	0.2	-	0.9	12.8	13.9	0.9	1.0	0.6	0.1	2.6	16.5
Charge for year	(12.2)	(1.0)	(61.1)	(42.9)	(117.2)	(45.6)	(137.3)	(26.5)	(1.4)	(210.8)	(328.0)
<b>At 31 March 2015</b>	<b>(243.2)</b>	<b>(22.7)</b>	<b>(1,201.2)</b>	<b>(868.4)</b>	<b>(2,335.5)</b>	<b>(1,804.0)</b>	<b>(3,386.9)</b>	<b>(432.6)</b>	<b>(19.0)</b>	<b>(5,642.5)</b>	<b>(7,978.0)</b>
<b>Net book value at 31 March 2015<sup>1</sup></b>	<b>131.3</b>	<b>12.6</b>	<b>635.4</b>	<b>604.8</b>	<b>1,384.1</b>	<b>726.0</b>	<b>1,489.1</b>	<b>305.8</b>	<b>4.3</b>	<b>2,525.2</b>	<b>3,909.3</b>
Net book value at 1 April 2014	131.1	11.2	626.3	608.1	1,376.7	738.5	1,513.4	295.4	4.7	2,552.0	3,928.7
<b>Infrastructure assets</b>											
<b>Gross replacement cost</b>											
At 1 April 2014	482.1	119.3	-	7,295.2	7,896.6	29,249.0	176.7	-	-	29,425.7	37,322.3
RPI adjustment	4.3	1.1	-	65.9	71.3	264.0	1.6	-	-	265.6	336.9
Additions	0.2	0.9	-	47.6	48.7	57.0	-	-	-	57.0	105.7
<b>At 31 March 2015<sup>1</sup></b>	<b>486.6</b>	<b>121.3</b>	<b>-</b>	<b>7,408.7</b>	<b>8,016.6</b>	<b>29,570.0</b>	<b>178.3</b>	<b>-</b>	<b>-</b>	<b>29,748.3</b>	<b>37,764.9</b>

<sup>1</sup> Includes adopted assets of £32.8 million.

for the year ended 31 March 2015 (retail business only)

	Household £m	Non- household £m	Total £m
<b>Non-infrastructure assets</b>			
<b>Gross replacement cost</b>			
At 1 April 2014	118.5	32.3	150.8
RPI adjustment	1.1	0.3	1.4
Disposals	(0.6)	(0.1)	(0.7)
Additions	5.4	1.0	6.4
<b>At 31 March 2015</b>	<b>124.4</b>	<b>33.5</b>	<b>157.9</b>
<b>Depreciation</b>			
At 1 April 2014	(104.6)	(27.2)	(131.8)
RPI adjustment	(0.9)	(0.3)	(1.2)
Disposals	0.5	0.1	0.6
Charge for year	(5.2)	(0.9)	(6.1)
<b>At 31 March 2015</b>	<b>(110.2)</b>	<b>(28.3)</b>	<b>(138.5)</b>
<b>Net book value at 31 March 2015</b>	<b>14.2</b>	<b>5.2</b>	<b>19.4</b>
Net book value at 1 April 2014	13.9	5.1	19.0

## Notes to the current cost financial statements continued

### 4 Analysis of capital expenditure, grants and land sales for the year ended 31 March

	2015			2014		
	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)	33.4	-	33.4	37.3	-	37.3
Maintenance non-infrastructure (MNI)	58.1	-	58.1	61.7	-	61.7
<b>Enhancements</b>						
Infrastructure enhancements	48.8	(11.6)	37.2	34.6	(7.1)	27.5
Non-infrastructure enhancements	57.8	(5.4)	52.4	52.0	(4.4)	47.6
<b>Total capital expenditure - water</b>	<b>198.1</b>	<b>(17.0)</b>	<b>181.1</b>	<b>185.6</b>	<b>(11.5)</b>	<b>174.1</b>
<b>Grants and contributions - water</b>						
Developer contributions (ie enhancement requisitions, grants and contributions)		(10.6)			(6.4)	
Infrastructure charge receipts - new connections		(6.4)			(5.1)	
<b>Total grants and contributions - water</b>		<b>(17.0)</b>			<b>(11.5)</b>	
<b>Capital expenditure - sewerage</b>						
<b>Base</b>						
Infrastructure renewals expenditure (IRE)	30.9	(0.3)	30.6	31.8	(0.3)	31.5
Maintenance non-infrastructure (MNI)	94.7	-	94.7	97.1	-	97.1
<b>Enhancements</b>						
Infrastructure enhancements	45.1	(4.7)	40.4	37.3	(5.7)	31.6
Non-infrastructure enhancements	69.9	(6.6)	63.3	72.6	(5.5)	67.1
<b>Total capital expenditure - sewerage</b>	<b>240.6</b>	<b>(11.6)</b>	<b>229.0</b>	<b>238.8</b>	<b>(11.5)</b>	<b>227.3</b>
<b>Grants and contributions - sewerage</b>						
Developer contributions (ie enhancement requisitions, grants and contributions)		(3.6)			(4.7)	
Infrastructure charge receipts - new connections		(7.6)			(6.5)	
Other contributions		(0.4)			(0.3)	
<b>Total grants and contributions - sewerage</b>		<b>(11.6)</b>			<b>(11.5)</b>	
<b>Total capital expenditure - water and sewerage</b>	<b>438.7</b>	<b>(28.6)</b>	<b>410.1</b>	<b>424.4</b>	<b>(23.0)</b>	<b>401.4</b>
Land sales - proceeds from disposals of protected land			1.0			0.9

## 5 Working capital

	2015 £m	2014 £m
Stocks	9.0	10.7
Trade debtors - measured household	97.6	84.3
Trade debtors - unmeasured household	42.6	53.9
Trade debtors - measured non-household	32.6	29.2
Trade debtors - unmeasured non-household	1.3	1.7
Other trade debtors	49.5	35.9
Measured income accrual	262.3	254.7
Prepayments and other debtors	20.5	14.0
Trade creditors	(79.0)	(67.9)
Deferred income - customer advance receipts	(252.7)	(223.9)
Short-term capital creditors	(65.9)	(58.9)
Accruals and other creditors	(73.6)	(67.3)
<b>Total working capital</b>	<b>44.2</b>	<b>66.4</b>
Total revenue outstanding <sup>1</sup> :		
- household	323.3	312.0
- non-household	47.9	47.4

<sup>1</sup> Excluding bad debt provision and bad debt write offs.

## 6 Analysis of net debt, gearing and interest costs

at 31 March 2015

	Fixed rate £m	Floating rate £m	Index- linked £m	Total £m
<b>Total borrowings</b>	<b>2,218.4</b>	<b>554.1</b>	<b>3,600.8</b>	<b>6,373.3</b>
Cash				(644.6)
Short-term deposits				(110.0)
<b>Net debt</b>				<b>5,618.7</b>
Regulatory capital value				7,113.0
Gearing				79%
Full year equivalent nominal interest cost <sup>1</sup>	125.8	11.0	163.7	300.5
Full year equivalent cash interest payment	125.8	11.0	71.6	208.4
<b>Indicative interest rates</b>				
Indicative weighted average nominal interest rate	5.6%	2.0%	4.5%	4.7%
Indicative weighted average cash interest rate	5.6%	2.0%	2.0%	3.3%
Weighted average years to maturity	9.5	2.8	21.9	15.9

<sup>1</sup> Based on long-term average RPI of 2.5 per cent.

## Notes to the current cost financial statements continued

at 31 March 2014

	Fixed rate £m	Floating rate £m	Index- linked £m	Total £m
Total borrowings	(2,286.7)	(555.7)	(3,343.3)	(6,185.7)
Cash				616.8
Short-term deposits				67.9
Net debt				(5,501.0)
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)
Indicative interest rates				
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 per cent.

### 7 Current cost profit and loss account

	2015 £m	2014 £m
At beginning of the year	(601.1)	(425.0)
Transfer from profit and loss account for the year	(200.9)	(180.9)
	(802.0)	(605.9)
Actuarial (loss)/gain recognised on pension schemes	(1.1)	5.9
Movement on deferred tax relating to the actuarial loss/(gain) on the pension schemes	0.2	(1.3)
Impact of change in tax rate on deferred tax on pension schemes	-	0.2
<b>At 31 March</b>	<b>(802.9)</b>	<b>(601.1)</b>

### 8 Current cost reserve

	2015 £m	2014 £m
At beginning of the year	28,120.9	27,374.0
RPI adjustments:		
- fixed assets	372.5	987.0
- working capital	0.6	0.4
- financing	(7.2)	(10.2)
- grants and third-party contributions	(86.9)	(230.3)
<b>At 31 March</b>	<b>28,399.9</b>	<b>28,120.9</b>

## Supplementary regulatory information

### 1 Non-financial information for the year ended 31 March

	2015		2014	
	Water	Sewerage	Water	Sewerage
<b>Number of properties (000s)</b>				
Households billed	1,933.6	2,501.9	1,917.4	2,482.7
Non-households billed	108.3	109.2	108.9	109.1
Households void	71.4	86.4	70.3	84.2
Non-households void	15.0	14.7	15.0	14.7
Properties served by new appointee in supply area as at 1 April 2009	2.1	1.9	1.5	1.3
<b>Per capita consumption (excluding supply pipe leakage) litres per household per day</b>				
Unmeasured household	149.1	n/a	148.0	n/a
Measured household	126.7	n/a	129.2	n/a
<b>Volume (mega litres per day)</b>				
Bulk supply export	36.1	2.4	37.9	1.9
Bulk supply import	2.6	7.7	2.9	7.3
Distribution input	1,092.7	n/a	1,101.0	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, Anglian Water Services Limited's Regulatory Accounts (the 'Regulatory Accounts'):

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 186 to 187 and 195 to 196 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 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).

### 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 International Financial Reporting Standards as adopted by the European Union ('IFRSs'). Financial information other than that prepared on the basis of IFRSs 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 182 to 184 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 185.

### What we have audited

Anglian Water Services Limited's Regulatory Accounts 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 reconciliation between statutory and 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.

The financial reporting framework that has been applied in their preparation comprises 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.

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

### 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 181, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)'), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

#### What an audit of Regulatory Accounts involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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 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 ISA's (UK and Ireland).

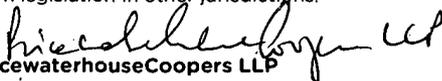
#### Other matters

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 2015 on which we reported on 29 May 2015, 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.

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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

  
**PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors

Birmingham  
29 May 2015

## 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 wastewater assets. The plan runs for a five-year period. AMP5 covers April 2010 to March 2015 and AMP 6 covers April 2015 to March 2020.

**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).

**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 that express dissatisfaction.

**Third-party contributions since 1989/90** - grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.

**VSAT (Very Satisfied)** - an Anglian Water tool for monitoring ongoing customer satisfaction based on customer surveys.

**Working capital** - the aggregate of stocks, trade debtors and trade creditors, if material.

**Working capital adjustment** - the impact of general inflation (RPI) on the real value of working capital to the business.

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