

Anglian Water Group Limited
Annual report and consolidated financial statements
for the year ended 31 March 2013

(Registered under the Companies (Jersey) Law 1991)

Anglian Water Group Limited
Directors' report
for the year ended 31 March 2013

The Directors present their report and the audited consolidated financial statements of Anglian Water Group Limited for the year ended 31 March 2013.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply and distribution, wastewater collection and treatment, providing social housing repairs, and property development. The information that fulfils the requirement of the business review, including the company's financial risk management objectives, is set out on pages 5 to 27.

On 7 November 2012 the group disposed of its Morrison Facilities Services business to Mears Group Plc for a total consideration of £24.0 million, comprising £16.0 million in cash and £8.0 million in Mears Group Plc shares, resulting in a loss on disposal of £17.8 million.

Group results and returns to shareholders

The profit and loss account on page 28 shows the group's results for the year. Dividends of £104.5 million (2012: £150.9 million) have been paid in the year. In addition a first interim dividend of £83.0 million in respect of the year ended 31 March 2014 was approved by the board on 22 May 2013 and was paid on 10 June 2013. This dividend has not been included as a liability at 31 March 2013.

Research and development

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

Directors

The Directors who held office during the year and to the date of this report are set out below.

Sir Adrian Montague CBE	Non-Executive Chairman
Scott Longhurst	Managing Director, Finance & Non Regulated Business
Peter Simpson	Managing Director, Anglian Water Services Limited
Non-Executive Directors:	
André Bourbonnais	CPP
Andrew Cox	3i (appointed 29 May 2012)
Cressida Hogg	3i
Werner Kerschl	IFM (appointed 13 May 2013)
Dr Andreas Koettering	CPP
Manoj Mehta	IFM (resigned 13 May 2013)
Niall Mills	CFS
Christine O'Reilly	CFS (resigned 5 September 2012)
Mark Rogers	CFS (appointed 5 September 2012)
Christian Seymour	IFM
Dr Timothy Stone, CBE	CPP
Philip White	3i (resigned 29 May 2012)

CPP	Canada Pension Plan Investment Board
CFS	Colonial First State Global Asset Management
IFM	Industry Funds Management

Claire Russell and Ogier Corporate Services (Jersey) Limited continued to serve as Company Secretaries throughout the year.

An annual review of the board's effectiveness is conducted by circulating a confidential questionnaire to each board member. The feedback provided is reviewed by the Chairman and the findings are discussed by the board, and with individual board members as appropriate. Members of the Anglian Water Services board are also invited to participate in the group's board effectiveness review.

Anglian Water Group Limited
Directors' report (continued)
for the year ended 31 March 2013

Directors' indemnities

The company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors.

Shareholders

The investors in the company and their respective group shareholdings as at 31 March 2013 are as follows:

	Number of shares held		
	Class A no par value ordinary shares	Class B no par value ordinary shares	No par value preference shares
Canada Pension Plan Investment Board	4,453,126	656,246	36,138,583,249
Colonial First State Global Asset Management	5,000,000	-	35,364,996,063
Industry Funds Management	3,065,623	-	21,683,149,948
3i	2,325,005	-	16,444,758,534
	14,843,754	656,246	109,631,487,794

Policy on the payment of creditors

It is the group's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from each of the company's principal subsidiaries and, in the case of Anglian Water, is available from the company's Supply Chain Management department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The group abides by the terms of payment. At 31 March 2013, the group had 43 days purchases outstanding (2012: 43 days). At 31 March 2013, the company had no trade creditors (2012: none).

Charitable donations

The group's businesses operate at the heart of the communities we serve, and the majority of our employees live locally too. We believe that offering the time, skills and expertise of Anglian Water employees is the best way in which we can make a sustained community contribution.

In 2011, the group launched a new employee volunteering programme – Love to Help – developed as a direct result of employee feedback. Through this programme, employees can volunteer for RiverCare, WaterAid or a good cause of their own choice, and in return the group pledges to match up to 30 hours per year of work time to help them to do even more volunteering. This new scheme forms part of the Anglian Water Love Every Drop campaign, and aims to build on the great voluntary efforts of our employees. As part of the Love to Help programme, a volunteers' committee raised £28,800 through the sale of small items of scrap metal. The group donated this sum to a range of small community projects.

We also continue to provide support to WaterAid – our nominated charity (that transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities). During the year, the group donated £40,000 to WaterAid. With the support of many employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £393,000 for WaterAid (2012: 372,000) – the highest amount ever raised by this committee.

Other charitable donations made by the group totalled £900 (2012: £nil).

Political donations

No political donations were made during the year (2012: £nil).

Anglian Water Group Limited
Directors' report (continued)
for the year ended 31 March 2013

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the group. 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 group's intranet are also widely used as sources of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. We recognise three trade unions, with whom we meet regularly for collective bargaining and consultation purposes. We have an active network of health and safety committees at which senior managers meet with trade union representatives to consult on matters affecting health and safety at work. We also operate a further elected employee forum 'Open House', where senior managers and frontline employees meet regularly to discuss the challenges facing the business and suggestions for change.

The group has a series of policies that both inform and guide all employees on the group'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 and programme in all of its operations whereby employees can, in confidence, report on matters where they feel a malpractice is taking place, or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment. The group also has a series of family friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

To encourage employee participation in Anglian Water Group's performance, the group operates 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.

Statement of disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the report is approved, 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.

Appointment of auditors and Annual General Meeting

Pursuant to Article 87(4) of the Companies (Jersey) Law 1991, Anglian Water Group Limited has dispensed with the obligation to hold an Annual General Meeting and the company has dispensed with the requirement to lay the annual report and accounts before the company in general meeting. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed to the Board.

Going concern

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 the 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.

Anglian Water Group Limited
Directors' report (continued)
for the year ended 31 March 2013

Statement of Directors' responsibilities

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

The Companies (Jersey) Law 1991 (the 'Jersey Companies Law') requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law ('UK GAAP')). 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 estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 comply with the Companies (Jersey) Law 1991. 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.



Claire Russell
Company Secretary
8 July 2013

Registered Office: Ogier House,
The Esplanade, St Helier, Jersey JE4 9WG
Registered in Jersey No. 94523

Business review

for the year ended 31 March 2013

Group financial performance

The group's principal business is Anglian Water, the group's regulated water and wastewater company, which serves over six million customers in the east of England and Hartlepool. The group also includes AWG Property, a specialist property development company.

On 7 November 2012 the group disposed of its Morrison Facilities Services business to Mears Group Plc for a total consideration of £24.0 million, comprising £16.0 million in cash and £8.0 million in Mears Group Plc shares, resulting in a loss on disposal of £17.8 million. In accordance with FRS 3 'Reporting financial performance', the results of Morrison Facilities Services to 7 November 2012 have been classified as a discontinued operation.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 26.

The results for the group for the year to 31 March 2013 show a pre-tax loss of £57.1 million (2012: loss of £61.2 million) and turnover of £1,388.6 million (2012: £1,474.2 million). The group has net debt at 31 March 2013 of £6,426.0 million (2012: £6,099.6 million). Net cash inflow from operating activities for the year was £664.8 million (2012: £628.6 million).

Dividends

Dividends of £104.5 million (2012: £150.9 million) have been paid in the year.

Divisional results

The following pages set out a business review for each of the main reporting segments of the group in respect of the continuing activities at 31 March 2013.

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Business review (continued)
for the year ended 31 March 2013

Anglian Water

Key performance indicators (KPI's)

Anglian Water's key performance indicators for the year to 31 March 2013 are provided below.

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2012/13 performance in context
Operational				
Drinking water quality ⁽¹⁾	Our overall mean zonal compliance performance in the calendar year against the required standards.	A resilient and secure supply of safe drinking water is a top priority.	2012: 99.96% 2011: 99.96% 2010: 99.96% 2009: 99.96% 2008: 99.98% 2007: 99.96%	Our drinking water quality continues to be excellent. Our strategy for reducing lead levels in drinking water has been recognised as leading in the water industry.
Leakage ⁽²⁾	Cubic metres of water lost per kilometre of main per day.	Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.	2012/13: 4.97 m ³ /km/day 2011/12: 5.26 m ³ /km/day 2010/11: 6.10 m ³ /km/day 2009/10: 5.62 m ³ /km/day 2008/09: 5.60 m ³ /km/day 2007/08: 5.60 m ³ /km/day Industry average 2011/12: 8.89 m ³ /km/day	This year we achieved our best ever performance on leakage to reflect our commitment to securing supply to our customers and protect our environment against potential drought. We beat our Ofwat target by 10%.
Service Incentive Mechanism (SIM)	A comparative measure of customer service introduced by Ofwat in 2010/11. It is made up of qualitative customer satisfaction and quantitative customer contact elements.	Excellence in customer service is at the heart of everything we do. The SIM helps us understand how to continually improve our service.	2012/13: 85 2011/12: 79 2010/11: 61	Our overall score has improved by 24 points from 2010/11. Our qualitative customer satisfaction score improved over the year and we ended the year ranked top in the league table for all water and sewerage companies.
Environmental				
Carbon footprint	CO ₂ emissions equivalent in tonnes CO ₂ e.	This key measure helps us: <ul style="list-style-type: none"> Manage our environmental impact. Deliver cost savings. 	2012/13: 487,659 2011/12: 485,273 2010/11: 504,026 2009/10: 493,702 2008/09: 498,115 2007/08: 478,450	Our longer term aspiration is a 50% reduction in emissions by 2035 from a 2010 baseline. We have achieved a 1.2% reduction in this asset management period alone.
Financial				
Capital expenditure £ million	Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation.	Total investment delivered so far in this five-year asset management period.	Three years to 31 March 2013: Determination: 1,436 ⁽³⁾ Actual: 1,241	Delivering our regulatory outputs, plus the extra requirements for private sewers, but with lower spend than assumed in the Final Determination due to: <ul style="list-style-type: none"> Higher efficiencies Reduced demand for new connections.
Operating expenditure £ million ⁽⁴⁾	Operating costs (excluding depreciation and exceptional operating costs) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives.	Determination: 2012/13: 450.4 Actual: 2012/13: 445.8 2011/12: 433.0 2010/11: 396.5 2009/10: 386.1 2008/09: 363.5 2007/08: 331.2	Below inflation increase of 3% over 2011/12 due to targeted efficiencies, improved bad debt and one off savings that partially offset inflationary pressures across the business. Despite the additional costs of the Carbon Reduction Commitment and private sewers transfer we have outperformed the Final Determination this year.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Key performance indicators (continued)

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2012/13 performance in context
Employees				
Accident frequency rate	Number of accidents per 100,000 hours worked. Data includes both direct employees and key contractors.	Indicates how safely we work.	2012/13: 0.16 2011/12: 0.28 2010/11: 0.31 2009/10: 0.37 2008/09: 0.39 2007/08: 0.37	Our BS OHSAS 18001 certificated health and safety management system is embedded throughout the company. We continue to make progress towards our ultimate goal of no accidents and no harm to people. We are particularly proud this year to have received a Gold Medal from The Royal Society for the Prevention of Accidents in recognition of our seventh consecutive Gold Award.
Accident severity rate	The number of Category 1 accidents/incidents expressed as a percentage of all accidents/incidents.	Measures severity of accidents/incidents.	2012/13: 0.2% 2011/12: 0.3% 2010/11: 1.1% 2009/10: 3.4% 2008/09: 5.7%	We have previously used the Health & Safety Executive's (HSE) CHaSPI metric in our KPIs. The HSE has stopped using CHaSPI, so we have replaced it with our Accident Severity Rate indicator, where all accidents/incidents are categorised. Category 1 accidents/incidents (most serious) are those that resulted or could have resulted in death, major or multiple fractures, amputation or permanent disability.

- (1) Drinking water results published in 2013 for the calendar year, measured as 'mean zonal compliance' with the regulatory quality standards.
- (2) Lost water from leaks in our network and our customers' own pipes. 2012/13 result subject to formal confirmation from Ofwat in autumn 2013.
- (3) Final Determination Capex on a gross, Pre-capital Incentive Scheme adjustment basis, in 2012/13 prices.
- (4) For the appointed and non-appointed businesses. Final Determination adjusted to 2012/13 prices and for non-appointed business and pension deficit payments to ensure consistency.

Introduction

Anglian Water is at the heart of every single community in the region, new or well-established, providing clean, safe drinking water and effective, efficient wastewater services. Anglian Water is in it for the long-term and plans for the long-term.

Market operations

Drinking water

Anglian Water provides 1.1 billion litres of safe, clean drinking water to 4.4 million people every day, making a vital contribution to the public health of our region. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers.

Wastewater

The company receives approximately 930 million litres of wastewater per day from 2.6 million homes and businesses, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Management

Structure

The Anglian Water Services Limited Board of Directors consists of the Chairman, Sir Adrian Montague CBE; four Executive Directors, Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome; and three independent Non-Executive Directors, Christopher Garnett OBE, Robert Napier CBE and John Watkinson.

Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome also sit on the Anglian Water Services Management Board, working closely together to develop and review Anglian Water's long-term strategic direction for approval by the Anglian Water Services Limited Board and implementing the agreed strategy.

People

Anglian Water is a leading employer in our region with 4,000 direct employees. In addition, many thousands more are employed indirectly through our supply chain. Our infrastructure underpins economic development across the east of England.

Regulators and the regulatory environment

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

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

Ofwat regulates the 33 providers of water and sewerage services in England and Wales. Ofwat's priorities are to:

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

The water industry operates on five year cycles known as Asset Management Plan (AMP) periods. Ofwat sets prices at the beginning of each period, following submissions from each company about what it will cost to deliver their plans. In November 2009, Ofwat issued their Final Determinations to water and wastewater companies, setting out prices for the period 2010 to 2015. These came into effect on 1 April 2010. Work is now well progressed on our plans for 2015 to 2020.

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

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

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

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

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

Ofwat review

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

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

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

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

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

The Water Bill

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

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

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

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

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

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

The current competition framework

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

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

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

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

In England, the consumption threshold for non-household customers wanting to switch supplier under the water supply licensing regime is 5 Ml per annum. Company access codes are based on a common operational code and contract for retail supplies.

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

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

Financial performance

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Turnover	1,163.0	1,138.0
Operating costs	(445.8)	(433.0)
Depreciation ⁽¹⁾	(262.4)	(254.2)
Operating profit before exceptional items and goodwill amortisation	454.8	450.8
Exceptional operating profit	-	41.3
Goodwill amortisation	(68.7)	(68.7)
Operating profit	386.1	423.4
Finance costs (adjusted) ⁽²⁾	(345.8)	(381.2)
Profit before tax (adjusted)⁽³⁾	40.3	42.2
Current tax charge	(30.2)	(31.2)
Deferred tax credit/(charge)	24.3	(12.9)
Profit/(loss) after tax (adjusted)⁽³⁾	34.4	(1.9)

(1) Depreciation net of amortisation of grants and contributions.

(2) Finance costs excluding the interest receivable from Anglian Water Services Holdings Limited of £192.7 million (2012: £193.6 million).

(3) The statutory profit before tax for Anglian Water Services Limited is £301.7 million (2012: £304.5 million) and the statutory profit after tax is £295.8 million (2012: £260.4 million) which includes the interest receivable from Anglian Water Services Holdings Limited referred to above and excludes the allocated goodwill amortisation of £68.7 million (2012: 68.7 million).

Turnover for the year was £1,163.0 million, up 2.2% on last year. This reflects the regulatory price increase of 6.6% (K factor of 1.4% and RPI of 5.2%), partially offset by reductions in demand from commercial and household customers of approximately 4.4% on an aggregate basis. The reduction in household demand is primarily a consequence of the exceptionally wet spring and summer in 2012, but also reflects the impact of the water restrictions imposed from April to mid-June 2012 and our associated customer campaigns to reduce water usage. The challenging economic environment and the wet weather have also contributed to the reduced commercial demand.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

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

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

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

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

Operating profit (before exceptional items and goodwill amortisation) has increased by 0.9% to £454.8 million as a result of the small increase in turnover, largely offset by the increases in operating costs and depreciation noted above. The exceptional profit of £41.3 million in the previous year relates to a one-off non cash pension credit resulting from restructuring the pension scheme.

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

The current tax charge on the adjusted profit before tax, before goodwill amortisation, of £109.0 million was £30.2 million (2012: £31.2 million). This reflected a reduction in the corporation tax rate from 26% to 24% for the year. The total tax charge of £5.9 million (2012: £44.1 million) consists of the current tax charge of £30.2 million less a deferred tax credit of £24.3 million (2012: charge of £12.9 million) on the substantial capital investment we make (including the £2.3 billion over the current five-year regulatory period), as agreed with the regulator to improve the service to customers. The reduction in deferred tax mainly reflects variations in the level of discounting due to changes in long-term UK Gilt rates.

In the year to 31 March 2013 Anglian Water raised £844.0 million of net new funds and made debt repayments of £253.3 million. Debt repayments comprised: £3.5 million of finance leases; £210.7 million in respect of our £275 million Class B 2012/2037 bond, which was called in July 2012; and £39.1 million in respect of a tender offer made on our £100.0 million Class B 2014/2024 bond in March 2013. This is consistent with our strategy to pre-finance maturing debt 12 months in advance.

At 31 March 2013 Anglian Water had net borrowings of £5,261.6 million, an increase of £319.1 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £6,339.6 million and cash and deposits of £1,078.0 million. The increased net borrowings reflect an increase of £380.2 million in cash and deposits (which causes net debt to decrease) and an increase of £699.3 million in loans and associated costs to enable repayment of maturing debt over the next 12 months and to meet forecast capital expenditure requirements. The business generated a net cash inflow from operating activities of £691.1 million in the year ended 31 March 2013 (2012: £661.5 million).

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

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

We continue to perform strongly in both identifying and delivering efficiencies on the investment programme, outperforming our expectations in the first three years of AMP5. Delivering this efficiency is key to enabling us to continue to finance additional schemes which allow us to maintain high quality service and enhance our resilience.

We have delivered a 39% reduction in embodied carbon in the schemes we are delivering this year compared to our AMP5 baseline of 2010. As well as the environmental benefits of reducing the embodied carbon this is also having a very positive impact in helping us deliver financial efficiencies by providing lower whole life cost solutions.

Continuing our programme of work following on from the drought conditions last year, the delivery of both the AMP5 identified resilience schemes (£20 million) and the accelerated investment programme of £43 million are continuing to increase our resilience and protect customers' supplies. The schemes in which we are investing include finding new sources of water, and improving the ability to move water around the region. We are also protecting existing supplies by increased investment in leakage detection and repair work.

Operational performance

Extremes of weather – the year in context

The weather, and in particular prolonged dry periods followed by extremes of rainfall, put significant pressure on the business during 2012/13. The response of the company to both of these challenges allowed us to demonstrate national leadership, leading the industry in a number of key areas.

The financial year started with the conclusion of a second dry winter in succession. Several Midlands counties had experienced their driest year on record, while in East Anglia and Lincolnshire only 1921 had been drier. By March 2012 it was being reported as the driest 18 months ever recorded.

With the risk of a third dry winter and no apparent break in the dry conditions, restrictions on water use came into force across many areas of the south and east, including the Anglian Water region. On 5 April 2012, we imposed a hosepipe ban – the first in the east of England for over 20 years. In parallel, we significantly stepped up our water efficiency campaigning.

During spring and early summer 2012, we took an active role in helping to lead the industry as it responded to the drought. This included industry-wide debates about resilience, innovation and water transfers. This helped to build trust from the public in the industry's response.

The customer response to the drought was notably positive. The hosepipe ban, combined with our research-based 'Drop 20' water saving campaign, saw savings of 60 million litres of water every day. At the peak of the campaign, 85% of customers were aware of the drought; satisfaction with the way Anglian Water was handling the drought rose to 51%; over half of customers believed our campaigning made them feel more positive towards us; 95% of customers said they were making some effort to save water at home; nine out of ten customers believed we all shared a responsibility to save water; and 84% stated that our support and campaigning made it easy for them to act to save water.

The threat of a third dry winter receded, but we are now working at a national level to build on our experience, and to use our learning to create a positive legacy for the whole of the industry from the drought. We have had significant input into Defra's 'lessons-learned' process.

In particular, we are challenging current thinking on resilience, and are in the process of responding to a Defra consultation on resilience in the water industry – a consultation we wholeheartedly welcome.

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The period between April and June 2012 was the wettest on record. We lifted our hosepipe ban on 14 June 2012, after just ten weeks. As the rain continued through to September, river flows were maintained, reservoirs could be filled and underground aquifers were recharged – almost unheard of during summer months.

Unfortunately, the exceptionally heavy and persistent rain had a negative effect on many communities, with significant flooding. While the level and intensity of rainfall during the year put great pressure on our operations, we continued to focus on excellent customer service, maintaining compliance and minimising the risk of pollution from assets that were often under significant stress.

The flooding was at its peak during December 2012 and January 2013. In response, we opened the company's Incident Room, staffing it around the clock over the Christmas and New Year holidays. The Incident Room oversaw a pan-company response to the extreme weather, at the same time as supporting customers during testing times. Over 110 tankers were deployed 24 hours-a-day, each with a capacity of up to 28,000 litres. Jobs were prioritised for those customers recognised to be at greatest risk of flooding, with staff on the ground working hard to protect customers' properties. We spent £600,000 on non-routine tanker operations in just ten days over the holiday period. One community, in Peterborough, commented that the company's actions "saved Christmas".

The exceptional rainfall and intensity of storm events put significant pressure on the operation of our network. Despite an overall reduction in blockages during the year, the number of properties affected by flooding events due to extreme weather increased, and remains a key area of focus looking forward to next year.

Through further flow monitoring, modelling, and initiatives such as the 'blue-light' response scheme (which sees high-risk properties responded to as a priority where a risk of internal flooding has been previously identified) we intend to reduce the number of incidents by ensuring we identify and respond to properties at risk of flooding.

The weather also impacted our pumping stations, with a greater number of asset failures and increased tankering and power costs to cope with heavier flows.

In response to the drought conditions, we had planned to invest additional funds to increase our resilience and to protect customers' supplies. However, the summer rainfall and subsequent recovery of resources enabled us to reprioritise delivery of these schemes. To date, we have committed an extra £43 million to protect our customers from the impacts of drought, and £30 million to keeping leakage at a record low level.

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

Continued focus on excellence for customers

The company remains committed to its goal of 100% of our customers being very satisfied with the service we provide.

Good progress is being made towards this objective, with 95% of customers surveyed telling us that they are satisfied or very satisfied. Of the customers who call our contact centres, 83% tell us that they are very satisfied; this number rises to 90% when we complete a home-visit.

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

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Although we have made good progress with customer service, we are not complacent. We recognise the role that every employee must play in improving customer satisfaction, and to that end, a 'Face of Anglian Water' training programme was further extended during 2012/13. This includes contractors, as well as Anglian Water staff.

As part of Ofwat's Service Incentive Mechanism (SIM) – which captures both quantitative and qualitative data – 200 customers are contacted every quarter and asked about their experiences of dealing with us. Extensive customer service training during 2012/13 has seen an increase in overall satisfaction, with 89% of customers polled rating themselves as very satisfied with the service they received in the field (an increase of 28% over the last two years); 83% of customers very satisfied with our speed of response (up by 17% over the last two years); and a 22% increase in satisfaction with the way we keep customers informed (to 88%) over the same period.

Overall, the results of the qualitative measure of the SIM show that we are leading the industry in terms of customer satisfaction. We were scored as the best water and sewerage company in the first three quarters of this year securing overall first place in the qualitative measure for the 2012/13 period.

Ofwat's independent customer satisfaction survey shows that our customers rate our service as the best in the industry. We continue to listen to our customers and remain focused on what they say. Last year, we spoke to over 35,000 customers to canvass their views about the quality of our service – over 95% of those who responded said that overall they were satisfied, or very satisfied, with our service.

Another significant measure of our commitment to continually improving our service is our complaint record. This is borne out by the fact that the Consumer Council for Water (CCW) – the body representing the interests of commercial and domestic water customers – has investigated fewer complaints against us this year, down to four (2012/13) from six in 2011/12 and 22 in 2010/11.

Supporting business customers

In July 2012, Anglian Water hosted the 'Global Water Challenge', a national conference in association with Guardian Sustainable Business. Focusing on water use in the supply chain, the event provided a powerful platform – lead by Anglian Water Business – for UK businesses, nongovernmental organisations (NGOs), government departments and senior stakeholders to share strategic thinking and best practice on sustainable water use. Sustainability experts from global companies such as Diageo, Marks & Spencer, Coca-Cola and PepsiCo shared collaborative models of good practice.

In March 2012, Bedford Council became the first local authority to sign the Anglian Water Business Promise, making a public commitment to reduce water consumption in council buildings by 20% by 2015. North Lincolnshire Council followed soon after, with a commitment to cut water use in council buildings by 20% by 2016, potentially saving around £350,000 over four years.

We continue to play a very significant role in the High Level Group on market reform, helping to shape the Blueprint for the non-household retail market. Several Anglian Water employees have been seconded into workstreams supporting both the High Level group and the Programme Delivery Board.

Wastewater: performance and progress in challenging times

2012/13 was the first full year of integrating transferred private sewers into our network, and as a result we saw a significant increase in our workload. We continue to monitor work levels very closely as we develop our understanding of the transferred assets, and capture the impact and cost of the transfer.

Alongside the increase in work overall, the daily variation in demand provided a challenge and often stretched our service. In response, we took the opportunity to reorganise our teams and create a regional collection department focused on operating the entire sewerage network and resolving customers' issues to build upon our industry leading SIM position.

The sewer transfer regulations will also result in the adoption of up to an estimated 3,000 private pumping stations by 2016. There remains a lot of uncertainty over the exact number and location of these assets, and we continue to identify and locate them through close liaison with key stakeholders and customers.

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We also began a programme of detailed site surveys to determine what condition they are in and what repair work will be required before 2016. The results of these surveys will inform and shape our adoption programme.

In 2012, the compliance level of our wastewater treatment works was 98% – an increase of 1% on our 2011 level of 97%, with a reduction in the numbers of failing samples and works. We also saw the number of serious, unconsented wastewater pollutions more than halve from seven in 2011 to just three in 2012. This was supported by a programme of enhanced process monitoring and the collection of vital data to enable us to operate our works more effectively, and intervene before major issues occur. It also helps us to optimise our works and identify process improvements or inefficient plant.

Despite 2012's significant rainfall, all 48 of our bathing waters achieved 100% compliance with the European Bathing Water Directive. Now entering into our 12th year of clean bathing waters, the majority (35) meet the higher standards of 'guideline'. This status is one of the requirements for being accredited with the prestigious Blue Flag Award. Across the Anglian Water region, 17 beaches were awarded Blue Flags in the summer of 2012.

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

We are the first water company in the UK to provide information to beach owners about CSO operation at all our designated bathing waters, notifying beach managers when we believe that a discharge has the potential to influence water quality.

Collaboration has been vital to the success of our coastal strategy in 2012/13. Over the year we have formed a number of strategic partnerships at national, regional and local level to share information and better understand stakeholder concerns. For example, our partnership with Seafish – the organisation that represents the UK shellfish industry – has led to a pioneering programme that will provide shellfishermen with 'live' information about the performance of our assets in the areas they work.

We are also the first (and only) water company in the UK to receive the ISO22301 certification for our Business Continuity Management Systems – a measure recommended by the Pitt Review published in 2008, following the widespread summer flooding of 2007. During 2012/13, we received a full re-certification across the entire company, in recognition of the robust nature of our business continuity planning.

In 2012/13, our performance across our water and wastewater assets, above and below ground, was strong. We now seek to consolidate on the improvements we have made to continue to deliver excellent water quality and environmental compliance.

Although we saw extremes of weather during 2012, we maintained our service to customers. We have already started to implement many improvements to ensure we do not let service deteriorate in future, should similar conditions return. We will continue to deliver these improvements in 2013/14.

In the last two years we classified our performance in relation to our wastewater below-ground (Sewerage Infrastructure) assets as 'marginal,' after trends showed an increase in flooding (other causes), and pollution incidents relative to the reference levels and control limits. We have put in place a comprehensive action plan to recover our performance to 'stable'. This includes our Keep it Clear campaign, a more extensive and targeted sewer maintenance program and faster response times to customer calls about potential problems. As a result, we have seen marked reductions in the number of blockages and pollution incidents. The extremely wet weather since April 2012 has meant we have not seen the same fall in flooding incidents. We recognise the severe impact of flooding on customers' lives and homes and our priority is to reduce the number of such events. All other serviceability measures were assessed as stable and we are confident that continued implementation of our action plan will deliver the improvements we want.

In the past year, the water industry has worked closely with the Environment Agency to update the reporting of environmental pollution incidents. Much of this work is reflected by the cutting-edge processes already in place in

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our region. Putting an even greater focus on reporting, in conjunction with our Keep it Clear campaign, will add momentum to our overall goal of 'no pollutions'. We are also investing in enhanced IT systems for more effective management of our laboratory and regulatory water quality data.

Our Keep it Clear behavioural change campaign, works closely with customers, businesses and community groups across the region to encourage people to use proper disposal methods for food and other waste material. As a result, there have been very significant reductions in blockages and other incidents in the eight areas targeted. We have seen an average of 59% in blockage reductions, compared with previous years. Non-participating Keep it Clear towns have experienced an average 6% rise in blockages. There has also been an average reduction of 72% in sewer flooding incidents in Keep it Clear locations. When surveyed, 80% of customers in the target locations are now concerned about sewer pipe blockages. This is an 11% rise from 69% previously, and 27% fewer sanitary products are now flushed down the toilet.

To date, 84,750 personalised mailers have been sent out, more than 15,750 customers have been directly and indirectly reached through community outreach with voluntary organisations, and more than 500 food service establishments have been visited. We reached our interim target to reduce avoidable blockages by 20% in 2012 (from 2010 levels). Our focus now is to target more blockage locations with the goal of reaching and sustaining our overarching key objective.

Water: driving efficiency and reducing leakage

Further progress with meter installations in 2012/13 means we're on target to fit over one million meters by 2015. Across the whole region, 72.2% of the homes we supply now have their usage measured by a meter, up from 69.4% in 2011/12. Many of the most recent installations have been targeted at the most water-stressed parts of our region. We are also trialling the use of in-house display units to allow customers to see how much or how little water they are using on a daily basis.

'Bits and Bobs', our programme to install water efficiency devices into customers' homes, is also running ahead of target. Three years into the five year programme, we have now visited more than 38,000 homes, saving customers (on average), 49 litres per household per day.

Since privatisation, our leakage levels have continued to drop dramatically, with 30% less water lost through leaks today compared to 20 years ago. This is despite the water network expanding by half a million homes in the same period. Our record remains one of the best in the industry.

In 2012, we beat our target for leakage (set by Ofwat) by 10%. Measured on the basis of water lost per kilometre of main managed per day, this is well under half the industry average and we believe is the lowest measurement on this basis in the UK.

Additionally, in 2012 we recorded the lowest level of water put into supply for over 25 years, having abstracted 4% less water from the environment than during 2011. This is an outstanding achievement when measured alongside the growth in our customer base, with some 16,000 new connections (domestic and non-domestic) added to our network during 2012/13, an increase of 0.8%. Although some of the reduction can be attributed to lower customer demand as a result of the wet weather, significant reductions have been achieved through the success of our Drop 20 campaign, and lower leakage levels in 2012. Research suggests that our Drop 20 campaign led to 95% of surveyed customers saying they were making at least some effort to save water at home, with 93% acknowledging the importance of not wasting water. Over half of all those surveyed (51%) also commented that the campaign made them feel more positive towards Anglian Water.

In total over the last year, we have spent £17 million on proactive leak detection and £18 million on reactive leak repairs. We improved the operation of our leakage monitoring system to over 80% – our best performance ever. We also started work on our leakage and pressure integrated reporting and targeting system, which will improve our ability to control leakage in the future.

Around 70 leak detection technicians deployed throughout the year have undertaken an intensive LTO (Licence to Operate) training programme, recognised as the best of its kind by Lloyd's Register Quality Assurance (LRQA). These

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employees supplement a separate and newly formed team that proactively manages and regulates the network operating pressure to minimise both leakage and bursts.

Understanding customer consumption is vital to helping customers save water, which is why we launched our state-of-the-art consumption tool – the Survey of Domestic Consumption – during 2012/13. The survey tracks customer use in specific individual properties across the Anglian Water region, to help us build a picture of water consumption and leakage levels in relation to factors like the time of the year and weather conditions.

Exceptional health and safety progress

2012/13 saw further improvement in our health and safety record, continuing the trend of previous years. The accident frequency rate over the year was 0.16 (compared to 0.23 in 2011/12 – adjusted to take account of changes to the RIDDOR reporting requirements in April 2012). This figure has been matched by an impressive reduction in the number of days lost to sickness (5.6 in 2012/13 compared to approximately 8.2 days/year in 2006/07). There has been a very significant reduction in almost every recorded measure of injury and accident, with the exception of Near Miss Reports which, following an active campaign to encourage more reports, have risen from 295 in 2006/07 to 3,842 in 2012/13. This directly reflects the cultural change that is taking place in the business, with a far greater focus on reporting risks and taking proactive action to address them.

During 2012/13, the company also retained its external BS OHSAS 18001 accreditation for our health and safety systems – a certification we have held across the entire business since 2009. Our health and safety performance has also been recognised by the Royal Society for the Prevention of Accidents (RoSPA). We are particularly proud to have been awarded, for the seventh consecutive year, a Gold Medal for sustained excellence in health and safety performance. This major award is presented to organisations that demonstrate consistent excellence and continuous improvement.

In the coming year, we will continue to make progress in the area of health and safety, with a focus on process safety, managing occupational road risk, and health and wellbeing.

Preparing for the price review

Throughout 2012/13, we have been conducting our biggest ever customer and stakeholder consultation to help us develop our five-year business plan for 2015 to 2020, and our long-term strategy.

We have actively polled our customers to establish what they think, and what choices they would make to help shape the future of water services. We've used a variety of channels and engagement mechanisms to help us find the best possible balance of priorities, while delivering high-quality customer service and affordable bills. In total, the views of approximately 50,000 customers, stakeholders and partners have so far informed our business planning process through focus groups, telephone interviews, deliberative workshops, roadshows, online, and at county shows.

In January 2013 this engagement was supplemented with the launch of our biggest ever public consultation to seek the views of our customers. Called Discover, Discuss, Decide, the consultation was hosted online and supported with printed materials. It was widely publicised through the media, social media, customer bills, drop-in stands in town centres across the region, workshops with young people, and radio advertising. Customers were invited to answer up to a dozen questions. Online, a budget simulator helped customers understand the potential impacts of their suggestions, while 'quick-polls' and discussion forums were used to encourage debate.

Almost 5,000 people chose to respond to the consultation, which closed at the end of March. The outputs are now being analysed and fed into our business plan for 2015 to 2020, which will be published later this year.

This customer engagement process is overseen by our independent Customer Engagement Forum, chaired by Dame Yve Buckland, the National Chair of the Consumer Council for Water, and supported by senior representatives of a wide range of other national and regional organisations.

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

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Progress on energy and carbon

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

We have an ambitious goal to reduce our operational carbon emissions by 10% in real terms by 2015, from a 2010 baseline. To achieve this, we are generating our own renewable energy, investing to improve our energy efficiency and designing new assets that use considerably less energy.

In 2012/13, we have continued to increase the amount of renewable energy generated across our sites, up from 45.9 GWh in 2011/12 to 52.7 GWh in 2012/13. We now generate, on our own sites, over 7% of all the energy that we use.

In the coming year we will be further enhancing this by adding the capacity to generate an additional 14.5 GWh of renewable energy through the commissioning of three large wind turbines. One of these is already installed and operational at March sewage treatment works, in Cambridgeshire. Two others will be commissioned in summer 2013, at Newton Marsh sewage treatment works, in Lincolnshire.

The majority of the renewable energy generated in 2012/13 (50.3 GWh) was created by our combined heat and power (CHP) engines, which are powered by biogas from our wastewater treatment process. Our vision for increasing power generation from renewable resources is closely linked with our policy on the recycling and re-use of biosolids. The biosolids – treated to the highest standards and branded as Nutri-bio – are in great demand by the region's farmers as a valuable soil conditioner. We had a record year for farm sales and continue to increase our annual income from our biosolid products. We also continue to improve the quality of our products, through advanced anaerobic digestion.

As well as generating our own renewable energy, the majority of electricity we import also comes from a renewable source.

Over the last year, our smart metering programme has given us remote access to accurate and timely data relating to over 90% of our electricity consumption. In particular, this improved data has helped us to set budgets, and verify our bills, generating a cost saving in 2012/13 of £1.6 million.

With regard to carbon, we continue to focus on measuring, managing and reducing emissions in operating our business, and engaging with external stakeholders in setting frameworks to reduce both operational and embodied carbon.

Very significant progress has been made towards our self-imposed target to reduce the amount of embodied carbon in the assets that we build. In 2012/13, a 39% saving has been achieved against our target of 30% for schemes in the third year of AMP5. This is an impressive and industry-leading result, achieved through a focus on design, materials used in construction and commissioning techniques. This leaves us in a good position to achieve our overall five-year target of halving the amount of embodied carbon in the new assets we build by 2015, against a 2010 baseline.

Exemplar schemes continue to show what is possible when innovative solutions are applied to the challenges we face. For instance, the team working on the Grafham Resilience project, required to protect a large number of vulnerable customers from the effect of a catastrophic failure at the Grafham water treatment works, successfully saved 77% (30,000 tonnes) of embodied carbon against the proposed solution within the design phase through re-use of existing assets and working with the supply chain to reduce carbon. Challenging the scheme's design in this way also reduced the cost of the scheme by 41% (£18 million).

Our embodied and operational targets for carbon reduction are extremely challenging, and our priority for the coming year will be to continue to support the business and the supply chain with the tools, skills and knowledge to ensure the continued delivery of savings.

Annual gross operational carbon emissions have reduced by 1.2% in 2012/13 in comparison to 2009/10 decreasing from 493,702 t/Co2e to 487,659 t/Co2e. Overall gross emissions have remained relatively unchanged over the last two years despite continued installation of new assets across our network.

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Annual net operational carbon emissions have reduced by 2.1% in 2012/13 in comparison to 2009/10 decreasing from 493,015 t/Co2e to 482,740 t/Co2e. The increase in renewable energy generation and the volumes exported have contributed to the lower net operational carbon emissions in comparison to the baseline year.

In 2012, we achieved re-certification to CEMARS (Certified Emissions Measurement and Reduction Scheme) in compliance with the requirements of ISO 14064-1: 2006. This provided external verification of our carbon measurement and reporting for 2011/12.

Significant benefit has also been derived during 2013 by positive collaboration with leading UK companies and the government through 'The Green Construction Board'. Chris Newsome, Anglian Water's Asset Management Director, sits on the main board, and chairs the infrastructure working group. The Green Construction Board provides strategic leadership to ensure UK construction is working towards a low carbon economy. The infrastructure working group has taken many of the lessons learned by Anglian Water and other leading UK companies to provide guidance for others on how to deliver projects with reduced carbon, and reduced cost.

Innovation and collaboration

We continue to drive innovation in everything we do, through our business and our supply chain. The Water Innovation Network (WIN), launched in 2011 in partnership with the UK Centre for Economic & Environmental Development (UKCEED), continues to go from strength to strength. The WIN enables small and specialist companies to share their ideas with us, discuss common challenges and encourages fresh thinking. Four WIN events were held during 2012/13. The 350 companies involved in the scheme to date have so far suggested 120 new ideas, several of which have been trialled and implemented.

Our work continues with the Cambridge Programme for Sustainability Leadership (CPSL) affording us more multi-sector innovation and opportunities for thought leadership. In partnership, we're looking to use collaborative action and innovation to champion a fundamental shift in the way water is managed. To encourage this approach, we became a founding sponsor of the CPSL's Collaboratory on Sustainable Water Stewardship, working alongside government departments, NGOs, regulatory bodies, private companies and academia.

The next phase of this project will continue the development of new approaches to water stewardship to achieve greater natural resilience at a lower overall cost. This will help government, business and communities to better manage risks, particularly those associated with changing weather patterns.

During 2012/13, we also sought to build on the working relationships we have established across our supply chain by continuing to hold regular events designed to help both our teams and our suppliers better understand our goals and to find ways of better working together to achieve them. In particular, we have worked to ensure that our partners understand our commitment to low 'whole-life cost' solutions, which are focused on minimising operational and embodied carbon footprints, our Love Every Drop goals and, above all, achieving health and safety excellence.

Love Every Drop: our leadership platform

Love Every Drop celebrated its second anniversary in 2012/13, and there has been widespread recognition of the speed and breadth of change that has been achieved since the strategy was introduced. Love Every Drop brings to life a vision of transforming the way we all use and value water, given that long-term access to secure supplies of water is one of the most pressing environmental and economic challenges the world faces today.

Throughout 2012/13, several Love Every Drop campaigns were delivered, many of them award winning. These included Drop 20 (our water efficiency campaign), The Potting Shed (water efficiency in the garden), Keep it Clear (our fats, oils, greases (FOG) and unflushables campaign), and Keep Your Pipes Cosy (a winter campaign promoting preparedness for cold weather).

Partners, suppliers, customers and stakeholders continue to show significant support for Love Every Drop, and its ambitions. Commenting on a report published to celebrate two years of the strategy, Dr Neil Bentley, Deputy Director General of the CBI, commented: "Love Every Drop...demonstrated leadership and challenged us all to think differently about water. They set themselves ambitious targets and this report shows the great progress they're making towards achieving their goals. Anglian Water is truly leading the way."

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Principal risks and uncertainties

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

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

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

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

Financing our business

Description

We are funding a £2.3 billion capital programme (gross sums assumed by Ofwat, in 2007/08 prices, before deducting grants and contributions) in Asset Management Plan (AMP) 5 and have a gross debt of £6.3 billion to manage and service. It is critical that we have robust financing arrangements in place.

Mitigation

We are funded predominantly by debt in the form of long-term bonds and other debt instruments, with equity (shares) making up the balance of our regulatory capital value. Net debt accounts for approximately 80% of our regulatory capital value as at March 2013.

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

Flooding

Description

We expect more intense, extreme storms and wetter winters. This makes our low-lying region particularly vulnerable to localised flooding that may impact our wastewater network, increase the likelihood of flooding to customers' homes and potentially impact our treatment works.

Mitigation

We invested £40 million in AMP4 schemes to improve the resilience of our network, and we are investing a further £40 million in AMP5 for flood prevention and resilience. Twenty key water sites will receive enhanced flood protection or resilience. The first site has already been completed, a further four will be delivered in 2013/14 and the remainder are currently in design. Comprehensive business continuity plans are in place, and are certified to ISO22301, including detailed Flood and Emergency Response plans for our key sites. Our business continuity plans are regularly tested internally, and also in multi-agency exercises, to ensure the plans are robust and effective.

Regional growth

Description

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

Mitigation

We invest considerable effort in forecasting our supply and demand requirements at a local and regional level for the next 25 years. We continually assess our investment options to identify the right combination of investment in new water resources, enhancements to our networks, and water efficiency measures to meet this challenge most cost

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effectively for our customers. We are also championing the use of sustainable drainage techniques, in place of piped systems as a more environmentally sound way of managing surface water in our growing region.

Water sector reform

Description

The future shape of the water sector has been the focus of considerable public policy debate over the last few years. The Government published its Draft Water Bill that continues to highlight significant changes to the industry. During 2012/13 we have agreed to changes in our licence that will allow Ofwat to make changes to the price setting mechanism at our next price review in 2014. This primarily relates to being able to set separate Wholesale and Retail controls, these changes are further set out in Ofwat's consultation (Setting Price Controls for 2015/20 – framework and approach).

Mitigation

We have been fully engaged in all aspects of these debates, including the publication of a number of pieces of evidence-based research in the key areas of water resource, and in particular on water trading in our region. We have taken an active role in key industry working groups, including Defra's High Level Group that is overseeing the development of a business retail market that is targeted for 2017.

Climate change

Description

Climate change is a major challenge to our business, and potential impacts include long-term changes to our region's water resource availability due to drought, flooding within our sewer network and flooding of our treatment sites. We operate in the driest region of the UK, classed as 'waterstressed' by the Environment Agency. 2012 has been a year of extremes, moving from severe drought into one of the wettest years on record. Although this cannot be attributed to climate change, it clearly demonstrates how vital it is that we manage supply and demand carefully, both today and for the future.

Mitigation

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

Bad Debt

Description

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

Mitigation

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

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

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Private sewers

Description

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

Mitigation

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

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

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

Energy management

Description

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

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

Mitigation

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

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

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

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

Compliance with legislation

Description

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

Mitigation

Our key operational processes have been certified to meet the requirements of applicable quality standards (including ISO 9001). Most of these standards require that our processes and systems are designed to comply with the relevant legislation. In addition, our legal department works closely with the business to ensure compliance with legislation generally, and our Legal Director sits on the Risk and Compliance Monitoring Committee, which meets on a quarterly basis.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Efficiency delivery

Description

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

Mitigation

Examples of efficiency projects we have implemented during the first three years of AMP5 include the following: changing working practices in our front-line workforce; setting up a major efficiency programme across our back-office teams; introducing changes to pension arrangements; pursuing energy efficiency; carrying out rigorous root cause analysis to ensure we provide the right whole-life cost solutions; focusing on both cost and carbon to find innovative ways of providing sustainable solutions; developing a range of initiatives to ensure that we maximise our use of standard products to reduce both cost and time on site, and improve the operability of what we deliver. Our efficiency in delivery has been essential to mitigate the impact of additional costs that have been incurred in the form of the Carbon Reduction Commitment, the transfer of private sewers and the Environmental Impact Unit Charge, collectively totalling more than £10 million per annum, none of which were included in prices when the AMP5 determination was made.

Pensions

Description

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

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

Mitigation

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

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

Looking ahead

Our focus remains on delivering excellent operational performance and high levels of customer satisfaction as we continue to deliver targeted and sustainable efficiencies across our operations and capital investment programme. We will continue to ensure that lateral endorsement of our work programmes drives innovation, collaboration, improved efficiency and excellent customer services.

Our Water Resources Management Plan (2014) will be published in the coming year. This document will set out our strategy to maintain the balance between water supply and demand over the period 2015 to 2040. We will be consulting with stakeholders on the adoption of this plan.

We will also be consulting with customers on a draft of our five-year business plan that is currently being prepared. This consultation, and the Draft Business Plan, will build on and include feedback from previous rounds of consultation in which customers told us what they particularly value.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Throughout the coming year we will focus on making sure that we are as efficient an operation as we can be, in preparation for the forthcoming price review, and to ensure that customers' bills can be best controlled in the face of challenging economic conditions.

Given the trend in unpredictable and often severe weather patterns, our focus turns to improving long-term resilience.

We will also continue to work with Government and our regulators on water sector reform, on the progress of the Water Bill, on the development of the non-household retail market in England, and to ensure a stable and transparent regulatory and investment framework in the best long term interests of our customers.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Property

Financial performance and Key Performance Indicators

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Operating loss	(7.1)	(6.0)
Operating cash flow	(7.3)	(11.6)
Capital employed at 31 March	13.0	15.1

Introduction

During 2012/13, the group has continued to pursue the realisation of value and mitigation of risk from its property investments. Notwithstanding the extremely difficult property market present throughout 2012/13, and which is expected to continue during 2013/14, this process has allowed the realisation of a further £0.8 million of value from certain strategic land assets and a reduction in joint venture off balance sheet debt by c.27% to a level of £68.3 million at year end. This represents a reduction of over 50% in the off balance sheet debt over the past three years. The funding for a majority of the joint ventures has been secured through to March 2016, which should provide a platform for future recovery of the relevant AWG Property Limited investment.

A small but focused management team remains in place to manage the residual property assets and to seek their disposal for the best value at the appropriate time.

Financial performance

AWG Property's turnover was £17.0 million (2012: £21.0 million) and the operating loss for the year was £7.1 million (2012: £6.0 million) as a result of the continuing difficult property market.

Management

AWG Property has its own board, which consists of one Anglian Water Group Limited Director (the Managing Director, Finance and Non Regulated Business), the Managing Director of AWG Property and two further Executive Directors. The Managing Director of AWG Property oversees the day-to-day operations.

Risks

AWG Property faces a variety of business risks. The principal risk is the economic cycle, which property developments tend to follow. The current economic environment presents risks in relation to the financial stability of joint venture partners and maturity of debt funding on individual properties. The AWG Property strategy mitigates these by; ensuring that the assets are able to generate sufficient income to service the interest costs; and having an asset management strategy to add value to which the funding counterparties are also committed. The combination of these is intended to mitigate the requirement to realise value from such assets in an adverse property market.

Pensions

The majority of employees participate in the group defined contribution scheme.

Outlook

AWG Property will focus on the controlled realisation of value from its remaining property portfolio over time and as the market recovers.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Other business activities

The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland, Alpheus Environmental which operates industrial and commercial wastewater treatment works, and residual international interests.

Pensions

At 31 March 2013 the gross deficit for the group (before deferred tax) was £86.2 million (2012: £56.1 million). A decrease in the discount rates applied to future liabilities, along with a slight increase in future inflation assumptions, have increased future pension scheme liabilities. The impact of these changes has been partially offset by an increase in the value of pension scheme assets as a result of investment returns and deficit reduction contributions. Future additional contributions will continue to be made in line with actuarial advice.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central treasury team reporting to the Managing Director, Finance & Non Regulated Business. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The central treasury function actively:

- ensures that lenders covenants are met;
- secures funds through a balanced approach to financial markets and maturities;
- manages interest rates to minimise financial exposures and minimise interest costs;
- invests temporary surplus cash to best advantage at minimal financial risk;
- maintains an excellent reputation with providers of finance and rating agencies;
- promotes management techniques and systems;
- enhances control of financial resources; and
- monitors counter party credit exposures.

The group's board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 19 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2013 the group held cash, deposits and current asset investments of £1,156.4 million (2012: £823.3 million) and had undrawn committed multi-currency facilities of £810 million (2012: £805 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 19 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2013 Anglian Water's and Osprey Acquisitions' 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 79.5% (2012: 79.2%) and 85.6% (2012: 84.9%) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by Osprey Holdco Limited, Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2013, all group companies were compliant with all covenants.

Anglian Water Group Limited
Business review (continued)
for the year ended 31 March 2013

Interest rates

The group's policy, as agreed by the board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

Anglian Water Group Limited
Group profit and loss account
for the year ended 31 March 2013

Notes	2013			2012			
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m	
2	Turnover						
	Turnover (including share of joint ventures)	1,215.6	179.9	1,395.5	1,194.1	290.7	1,484.8
	Less: share of turnover of joint ventures	(6.9)	-	(6.9)	(10.6)	-	(10.6)
	Group turnover	1,208.7	179.9	1,388.6	1,183.5	290.7	1,474.2
	Operating costs:						
	Before exceptional operating profits/(costs), goodwill amortisation and impairment	(778.7)	(181.0)	(959.7)	(753.6)	(298.5)	(1,052.1)
4	Exceptional operating profits/(costs)	-	-	-	45.5	(8.9)	36.6
	Goodwill amortisation	(68.7)	(1.1)	(69.8)	(68.7)	(3.4)	(72.1)
4	Goodwill impairment	-	-	-	-	(24.8)	(24.8)
3	Group operating costs	(847.4)	(182.1)	(1,029.5)	(776.8)	(335.6)	(1,112.4)
	Group operating profit/(loss)	361.3	(2.2)	359.1	406.7	(44.9)	361.8
	Share of operating profit in joint ventures	1.5	-	1.5	1.1	0.2	1.3
	Total operating profit						
	Before exceptional operating profits/(costs), goodwill amortisation and impairment	431.5	(1.1)	430.4	431.0	(7.6)	423.4
4	Exceptional operating profits/(costs) and goodwill impairment	-	-	-	45.5	(33.7)	11.8
	Goodwill amortisation	(68.7)	(1.1)	(69.8)	(68.7)	(3.4)	(72.1)
2	Total operating profit/(loss)	362.8	(2.2)	360.6	407.8	(44.7)	363.1
4	Loss on disposal of discontinued operations	-	(17.8)	(17.8)	-	-	-
	Profit/(loss) on ordinary activities before finance charges	362.8	(20.0)	342.8	407.8	(44.7)	363.1
5	Net interest payable and similar charges			(396.6)			(422.4)
6	Other finance costs (net)			(3.3)			(1.9)
7	Loss on ordinary activities before taxation			(57.1)			(61.2)
8	Tax on loss on ordinary activities			11.1			(32.6)
	Loss on ordinary activities after taxation			(46.0)			(93.8)
	Equity minority interest			(2.0)			(2.1)
	Loss for the financial year			(48.0)			(95.9)

Notes 1 to 31 are an integral part of these financial statements.

There was no difference between both the loss on ordinary activities before taxation and the loss for the financial year as stated above, and their historical cost equivalents.

Anglian Water Group Limited
Group and company balance sheets
at 31 March 2013

Notes	Group		Company		
	2013 £m	2012 £m	2013 £m	2012 £m	
	Fixed assets				
12	Intangible assets	935.4	1,031.6	-	-
13	Tangible assets	5,944.9	5,737.9	-	-
14	Investments				
	Joint ventures				
	Share of gross assets	38.5	53.6	-	-
	Share of gross liabilities	(38.5)	(53.6)	-	-
	Other investments	-	-	1,211.2	1,211.2
	Total investments	-	-	1,211.2	1,211.2
		6,880.3	6,769.5	1,211.2	1,211.2
	Current assets				
15	Stocks	25.0	26.2	-	-
16	Debtors	484.4	448.3	-	-
14	Investments	137.0	134.1	-	-
	Cash at bank and in hand (including short-term deposits)	1,027.4	689.2	-	-
		1,673.8	1,297.8	-	-
	Creditors: amounts falling due within one year				
17	Short-term borrowings	(662.4)	(234.4)	-	-
17	Other creditors	(555.5)	(549.2)	-	-
		(1,217.9)	(783.6)	-	-
	Net current assets	455.9	514.2	-	-
	Total assets less current liabilities	7,336.2	7,283.7	1,211.2	1,211.2
	Creditors: amounts falling due after more than one year				
18	Loans and other borrowings	(6,920.0)	(6,688.5)	-	-
18	Other creditors	(132.9)	(132.5)	-	-
		(7,052.9)	(6,821.0)	-	-
20	Provisions for liabilities	(114.1)	(121.8)	-	-
	Net assets excluding pension assets and liabilities	169.2	340.9	1,211.2	1,211.2
22(d)	Pension schemes with net assets	-	4.4	-	-
22(d)	Pension schemes with net liabilities	(66.4)	(47.0)	-	-
	Net assets including pension assets and liabilities	102.8	298.3	1,211.2	1,211.2
	Capital and reserves				
23	Called up share capital	-	-	-	-
24	Share premium account	1,096.2	1,096.2	1,096.2	1,096.2
24	Profit and loss reserve	(997.4)	(802.6)	115.0	115.0
	Total shareholders' funds	98.8	293.6	1,211.2	1,211.2
	Minority interest	4.0	4.7	-	-
	Capital employed	102.8	298.3	1,211.2	1,211.2

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the board of Directors on 8 July 2013 and signed on its behalf by:

Sir Adrian Montague CBE
Chairman

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Anglian Water Group Limited
Group cash flow statement
for the year ended 31 March 2013

Notes	2013 £m	2012 £m
(a) Net cash inflow from operating activities	664.8	628.6
Dividends received from joint ventures	-	0.2
Returns on investments and servicing of finance		
Interest received	9.2	6.1
Interest paid	(317.7)	(310.9)
Issue costs paid	(5.2)	(3.0)
Interest element of finance lease rental payments	(2.5)	(3.1)
Dividends paid to minority interests	(2.1)	(2.1)
Net cash outflow for returns on investments and servicing of finance	(318.3)	(313.0)
Taxation	1.6	(0.6)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(527.4)	(362.7)
Grants and contributions received	21.9	22.7
Disposal of tangible fixed assets	3.3	1.4
Net cash outflow for capital expenditure and financial investment	(502.2)	(338.6)
Disposals		
(b) Disposal of subsidiary undertakings	0.6	-
Net cash inflow for disposals	0.6	-
Equity dividends paid	(104.5)	(150.9)
Net cash outflow before management of liquid resources and financing	(258.0)	(174.3)
(c) Management of liquid resources		
Increase in short-term deposits and investments	(290.1)	(87.0)
Financing		
Increase in amounts borrowed	851.2	610.3
Repayment of amounts borrowed	(256.7)	(307.0)
Capital element of finance lease rental payments	(3.5)	(2.8)
Net cash inflow from financing	591.0	300.5
(d) Increase in cash	42.9	39.2

The notes (a) to (e) form part of this cash flow statement.

Anglian Water Group Limited
Notes to the group cash flow statement
for the year ended 31 March 2013

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

	2013			2012		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Group operating profit	361.3	(2.2)	359.1	406.7	(44.9)	361.8
Depreciation (net of amortisation of deferred grants and contributions)	274.6	1.3	275.9	266.6	2.1	268.7
Goodwill amortisation	68.7	1.1	69.8	68.7	3.4	72.1
Goodwill impairment	-	-	-	-	24.8	24.8
Profit on sale of fixed assets	(2.2)	-	(2.2)	(1.3)	-	(1.3)
Pension curtailment	-	-	-	(43.5)	-	(43.5)
Difference between pension charge and cash contributions	(29.9)	0.4	(29.5)	(33.8)	(1.8)	(35.6)
Net movement in provisions	(0.6)	-	(0.6)	(5.6)	-	(5.6)
Working capital:						
(Increase)/decrease in stocks	(0.3)	(0.2)	(0.5)	3.6	(0.3)	3.3
Increase in debtors	(87.6)	(3.3)	(90.9)	(46.8)	(3.4)	(50.2)
Increase/(decrease) in creditors	89.8	(6.1)	83.7	19.1	15.0	34.1
	1.9	(9.6)	(7.7)	(24.1)	11.3	(12.8)
Net cash inflow from operating activities	673.8	(9.0)	664.8	633.7	(5.1)	628.6

(b) Disposal of subsidiary undertakings

	2013 £m	2012 £m
Cash consideration received (see note 29)	16.0	-
Cash at bank and in hand disposed with subsidiary undertakings (see note 29)	(11.4)	-
Disposal costs paid	(4.0)	-
Net cash inflow for disposal of subsidiary undertakings	0.6	-

Subsequent to the year-end, on 25 April 2013, the group's holding of shares in Mears Group Plc, which were acquired as part of the total consideration received for the disposal of Morrison Facilities Services, were sold for an additional £9.3 million.

(c) Management of liquid resources

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

Notes to the group cash flow statement (continued)

for the year ended 31 March 2013

(d) Analysis of net debt

	At 1 April 2012 £m	Cash flows £m	Disposals (excluding cash and overdrafts) £m	Non-cash movements £m	Exchange movements £m	At 31 March 2013 £m
Cash at bank and in hand	244.8	42.9	-	-	0.1	287.8
Deposits and investments	578.5	290.1	-	-	-	868.6
Debt due within one year	(234.4)	213.9	7.2	(649.1)	-	(662.4)
Debt due after one year	(6,688.5)	(799.7)	-	568.2	-	(6,920.0)
	(6,099.6)	(252.8)	7.2	(80.9)	0.1	(6,426.0)

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of fair value adjustments.

Included within deposits and investments above are £739.6 million (2012: £444.4 million) of short-term deposits maturing within three months, which are included in the heading 'cash at bank and in hand' in the balance sheet.

At 31 March 2013, £235.9 million (2012: £155.5 million) of the group's cash at bank and in hand and £842.1 million (2012: £542.3 million) of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £1.4 million (2012: £8.2 million) of the group's deposits and investments was held as collateral for outstanding loan notes. In addition, £2.1 million (2012: £0.3 million) of the group's cash at bank and in hand and £1.5 million (2012: £3.0 million) of the deposits and investments were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

(e) Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Increase in cash	42.9	39.2
Increase in short-term deposits and investments	290.1	87.0
Increase in amounts borrowed	(851.2)	(610.3)
Repayment of amounts borrowed	256.7	307.0
Capital element of finance lease rental payments	3.5	2.8
Issue costs relating to new borrowings	5.2	3.0
Amortisation of discount and expenses relating to debt issues	(5.4)	(4.4)
Amortisation of fair value adjustments	36.0	43.4
Indexation of loan stock and RPI swaps	(111.5)	(149.6)
Loans disposed with subsidiary undertakings	7.2	-
Exchange differences	0.1	(0.3)
Movement in net debt	(326.4)	(282.2)
Net debt at the beginning of the year	(6,099.6)	(5,817.4)
Net debt at 31 March	(6,426.0)	(6,099.6)

Anglian Water Group Limited
Notes to the group financial statements
for the year ended 31 March 2013

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

a) **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and with the Companies (Jersey) Law 1991.

b) **Basis of preparation**

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. 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.

i. *Joint ventures*

Joint ventures are those entities over whose activities the group exercises joint control, established by contractual agreement. The group's interests in jointly controlled enterprises are accounted for by the gross equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised gains and losses of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

Jointly controlled operations and assets, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets, liabilities and cash flows measured according to the terms of the agreement.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and transferred to provisions.

ii. *Associates*

Associates are entities over which the group exercises significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

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 year and monetary assets and liabilities are dealt with in the profit and loss account.

On consolidation, the profit and loss accounts of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating profit and loss accounts at average rates and restating opening net assets at closing rates are taken to reserves. Exchange differences on foreign currency borrowings are taken to reserves to the extent that they provide an effective hedge of the exchange differences arising on net investments in foreign subsidiaries.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

d) Turnover

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

Turnover from sale of development properties which are not held for the long-term is recorded when a sale is completed in accordance with the profit recognition criteria in 1(e) below. Turnover includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year-end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £4.8 million).

e) Profit recognition policy

i. *Property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year-end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses. Other profits arising from developments are included in the financial statements only when legal completion of the sale of the development has been effected.

ii. *Insurance claims and other recoveries*

Where some of the forecast expenditure on a contract is expected to be reimbursed by another party (such as an insurance company) the reimbursement is recognised only when receipt of the amount is virtually certain.

f) Research and development

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

g) Bid and pre-contract costs

Bid and pre-contract costs are written off as an expense until such time as the award of a contract becomes virtually certain.

h) Exceptional items

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

Those items which are not related to the group's normal trading activities, for example, costs of a fundamental restructuring, impairment of tangible fixed assets and profit or loss on sale of businesses and related costs are shown separately on the face of the profit and loss account after operating profit and before interest. All other exceptional items are included within operating profit.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

i) Taxation

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

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

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

Calculation of deferred tax on infrastructure assets:

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

j) 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.

k) Goodwill

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 'Fair values in acquisition accounting'. On disposal of a subsidiary undertaking, any goodwill that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

Goodwill is generally amortised over 20 years, being the Directors' best estimate of the useful economic life, or the life of the contract if less than 20 years.

Goodwill is tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. In calculation of the value in use, assumptions are made in respect of the discount rate applied to the future cash flows of income-generating units. This discount rate is selected on the basis of the inherent risk associated with the income-generating unit. Net realisable value is used to determine the recoverable amount of an income-generating unit where it is higher than the value in use or where the value will be recovered through sale. The net realisable value is calculated on the basis of the current estimated realisable value less costs to sell.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

l) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

i. Infrastructure assets

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

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

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on Anglian Water Services Limited's Asset Management Plan, which is independently certified by the Reporter.

ii. Other assets

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

Freehold land is not depreciated, nor are assets in the course of construction until commissioned.

Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows:

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

Fixed assets are assessed for impairment, in accordance with FRS 11 'Impairment of fixed assets and goodwill', if events or changes in circumstances indicate that the carrying value may not be recoverable.

m) Grants and contributions

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

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

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets.

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

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

n) Leased assets

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

o) Investments

Investments held as fixed assets are stated at cost less any provision for impairment. For investments in subsidiary undertakings, cost includes long-term loans that are not expected to be repaid in the foreseeable future.

p) Stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

q) Long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses, and include payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

r) Bad debts

In Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary undertakings, specific provisions are made for those debts on which recovery is regarded as doubtful.

s) Current asset investments

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

Other investments comprise equity investments that are not being held for the long-term, and are stated at cost less any provision for impairment.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

t) Borrowings

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

Indexation on index-linked borrowings is calculated with reference to the current applicable UK RPI index compared to the UK RPI index applicable at the time of issue. It is payable on the maturity of each respective borrowing. The total interest charge on the index-linked borrowings is a product of the indexation accrued to date and the nominal coupon rate payable on the indexed principal of the borrowings.

u) 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. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates.

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

Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that of the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits. Where a financial instrument is used to manage interest cost but is not part of a hedging relationship, gains are recognised on maturity of the instrument and losses are recognised immediately where there is an estimated future net cash outflow over the remaining life of the instrument.

On 23 November 2006 Osprey Acquisitions Limited, a wholly owned subsidiary of Anglian Water Group Limited, acquired AWG Plc and its subsidiaries. On acquisition, fair values were attributed to the net identifiable assets and liabilities acquired in accordance with the requirements of FRS 6 'Acquisitions and mergers'. The fair value adjustment made to loans and borrowings on acquisition is being amortised over the life of the individual debt instruments to which it relates and is included within interest payable.

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

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

v) 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. Other onerous contracts

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

iii. 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.

iv. Redundancy costs

Redundancy costs are charged to the profit and loss account in the year 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.

v. Self insurance

Some subsidiary companies self insure the risks where it is commercially prudent to do so. Provision is made in respect of notified claims to the extent that it is probable that a cash settlement will arise. Provision is made in the group's captive insurance company, Rutland Insurance Limited, for the expected cost of claims incurred but not reported.

w) 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 method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance charges. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

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

ii. Defined Contribution Schemes

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

Notes to the group financial statements (continued)

for the year ended 31 March 2013

1. Accounting policies (continued)

x) Key assumptions and significant judgments

The group uses estimates and makes judgments in the preparation of its financial statements. The areas where the most judgment is required are highlighted below.

i. *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year-end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £4.8 million).

ii. *Pensions*

The group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under FRS 17 'Retirement benefits' the group has recognised a pension deficit (before deferred tax) of £86.2 million (2012: £56.1 million). The main assumptions are set out in note 22 of the financial statements.

iii. *Tangible fixed assets*

The tangible fixed assets used in the group are primarily the infrastructure and operational assets of the regulated water business. Operational assets have estimated economic lives of between 30 and 100 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. The depreciation charge for infrastructure assets is based on the level of future annual expenditure which requires judgment in determining this estimate. 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.

iv. *Taxation*

The group's tax charge is based on the profit for the year 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.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

2. Segmental analysis

By class of business for the year ended 31 March 2013

At 31 March 2013 the group was organised into the following main businesses:

- Anglian Water; regulated water, wastewater and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- AWG Property; commercial and residential property developer.

Following its disposal on 7 November 2012, the following business has been classified as a discontinued operation in accordance with FRS 3 'Reporting financial performance':

- Morrison Facilities Services; provides repair and maintenance and capital investment services to local authority clients.

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Loss on disposal of discontinued operations £m	Goodwill amortisation £m	Profit before finance charges £m	Net operating assets/ (liabilities) ⁽³⁾ £m
Continuing operations						
Anglian Water	1,163.0	454.8	-	(68.7)	386.1	6,611.9
AWG Property	17.0	(7.1)	-	-	(7.1)	13.0
Other ^{(1) (2)}	36.1	(16.2)	-	-	(16.2)	(34.1)
Less: Intersegmental trading	(0.5)	-	-	-	-	-
	1,215.6	431.5	-	(68.7)	362.8	6,590.8
Discontinued operations						
Morrison Facilities Services	179.9	(1.1)	(17.8)	(1.1)	(20.0)	-
	1,395.5	430.4	(17.8)	(69.8)	342.8	6,590.8
Net debt						(6,426.0)
Current tax						(0.6)
Deferred tax						(61.4)
						102.8
Total						
Group	1,388.6	428.9	(17.8)	(69.8)	341.3	
Joint ventures	6.9	1.5	-	-	1.5	

⁽¹⁾ The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland, Alpheus Environmental which operates industrial and commercial wastewater treatment works, and a few residual international interests.

⁽²⁾ Following the disposal of Morrison Facilities Services, the head office company of Morrison Facilities Services, Morrison Limited (formerly Morrison Plc), which did not form part of the sale transaction, has been included within the 'Other' business segment as part of the group head office. Comparative numbers have been restated accordingly.

⁽³⁾ Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

2. Segmental analysis (continued)

By class of business for the year ended 31 March 2012

	Turnover £m	Total operating profit before exceptional items and goodwill amortisation £m	Exceptional operating profits/ (costs) and goodwill impairment £m	Goodwill amortisation £m	Profit before finance charges £m	Net operating assets/ (liabilities) £m
Continuing operations						
Anglian Water	1,138.0	450.8	41.3	(68.7)	423.4	6,475.0
AWG Property	21.0	(6.0)	-	-	(6.0)	15.1
Other	35.9	(13.8)	4.2	-	(9.6)	(36.6)
Less: Intersegmental trading	(0.8)	-	-	-	-	-
	1,194.1	431.0	45.5	(68.7)	407.8	6,453.5
Discontinued operations						
Morrison Facilities Services	290.7	(7.6)	(33.7)	(3.4)	(44.7)	21.3
	1,484.8	423.4	11.8	(72.1)	363.1	6,474.8
Net debt						(6,099.6)
Current tax						1.5
Deferred tax						(78.4)
						298.3
Total						
Group	1,474.2	422.1	11.8	(72.1)	361.8	
Joint ventures	10.6	1.3	-	-	1.3	

By geographical segment

	Turnover		Profit before finance charges		Net operating assets/(liabilities)	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Continuing operations						
United Kingdom	1,194.0	1,169.5	358.7	404.2	6,590.2	6,453.6
Europe	21.6	21.6	4.1	3.7	1.8	1.5
Rest of world	-	3.0	-	(0.1)	(1.2)	(1.6)
	1,215.6	1,194.1	362.8	407.8	6,590.8	6,453.5
Discontinued operations						
United Kingdom	179.9	290.7	(20.0)	(44.7)	-	21.3
	1,395.5	1,484.8	342.8	363.1	6,590.8	6,474.8

There is no material difference between turnover by geographical origin and by geographical destination.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

3. Group operating costs

	2013			2012		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m	£m
Raw materials and consumables	18.2	19.9	38.1	23.6	34.1	57.7
Other operating costs	364.8	97.5	462.3	354.4	153.9	508.3
Staff costs (see note 9)	185.7	62.3	248.0	121.9	117.3	239.2
Change in stocks of finished goods and work in progress	0.5	-	0.5	2.8	-	2.8
Own work capitalised	(62.9)	-	(62.9)	(59.9)	-	(59.9)
Profit on sale of fixed assets ⁽¹⁾	(2.2)	-	(2.2)	(1.3)	-	(1.3)
Operating costs before depreciation and amortisation	504.1	179.7	683.8	441.5	305.3	746.8
Depreciation of tangible fixed assets	283.2	1.3	284.5	274.8	2.1	276.9
Amortisation of deferred grants and contributions	(8.6)	-	(8.6)	(8.2)	-	(8.2)
Depreciation net of amortisation of deferred grants and contributions	274.6	1.3	275.9	266.6	2.1	268.7
Total before amortisation of intangible assets	778.7	181.0	959.7	708.1	307.4	1,015.5
Amortisation of intangible assets	68.7	1.1	69.8	68.7	28.2	96.9
Group operating costs	847.4	182.1	1,029.5	776.8	335.6	1,112.4

⁽¹⁾ The profit on sale of fixed assets relates to various sales of surplus land and assets.

Exceptional operating profits for the year ended 31 March 2012 include a curtailment credit of £43.5 million on the AWGPS defined benefit employee pension scheme. In addition, the group released £2.0 million of amounts previously provided in respect of prior year disposals.

Morrison Facilities Services incurred restructuring costs of £8.9 million during the year ended 31 March 2012 in reducing their cost base and exiting certain unprofitable contracts. In addition, goodwill impairment of £24.8 million was charged in respect of the Morrison Facilities Services business.

The amount of exceptional items (see note 4) included within the above table is as follows:

	2012		
	Continuing operations	Discontinued operations	Total
	£m	£m	£m
Other operating costs	(2.0)	5.7	3.7
Staff costs	(43.5)	3.2	(40.3)
Operating costs before depreciation and amortisation	(45.5)	8.9	(36.6)
Amortisation of intangible assets	-	24.8	24.8
Exceptional operating (profits)/costs	(45.5)	33.7	(11.8)

Notes to the group financial statements (continued)

for the year ended 31 March 2013

4. Exceptional items

	2013	2012
	£m	£m
Exceptional operating profits/(costs)		
Continuing operations	-	45.5
Discontinued operations	-	(8.9)
	<u>-</u>	<u>36.6</u>
Goodwill impairment		
Discontinued operations	-	(24.8)
Loss on disposal of discontinued operations	(17.8)	-
	<u>(17.8)</u>	<u>11.8</u>

On 7 November 2012 the group disposed of its Morrison Facilities Services business for a total consideration of £24.0 million and a loss on disposal of £17.8 million, after disposal costs and various associated provisions (see note 29).

Exceptional operating profits for the year ended 31 March 2012 include a curtailment credit of £43.5 million on the AWGPS defined benefit employee pension scheme following a comprehensive review process which resulted in the group implementing significant changes to the pension scheme to ensure its long-term sustainability. In addition, the group released £2.0 million of amounts previously provided in respect of prior year disposals.

Morrison Facilities Services incurred restructuring costs of £8.9 million during the year ended 31 March 2012 in reducing their cost base and exiting certain unprofitable contracts.

The Morrison Facilities Services business performed below expectations during the year ended 31 March 2012. An impairment review was undertaken in accordance with FRS 11 'Impairment of fixed assets and goodwill' which resulted in a goodwill impairment charge of £24.8 million.

A tax charge of £nil (2012: £9.0 million) was included in respect of these items.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

5. Net interest payable and similar charges

	2013	2012
	£m	£m
Interest payable on bank loans and overdrafts	(0.7)	(0.6)
Interest payable on other loans including financing expenses	(325.1)	(318.1)
Indexation	(111.5)	(149.6)
Interest payable on finance leases	(2.4)	(2.9)
Amortisation of fair value adjustments	36.0	43.4
Group interest and similar charges payable	(403.7)	(427.8)
Share of joint venture interest payable	(1.5)	(1.5)
Total interest and similar charges payable	(405.2)	(429.3)
Group interest receivable	8.6	6.9
Net interest payable and similar charges	(396.6)	(422.4)
Total		
Group	(395.1)	(420.9)
Joint ventures	(1.5)	(1.5)

6. Other finance costs (net)

	2013	2012
	£m	£m
Unwinding of discount on onerous lease obligation provision (see note 20)	(0.7)	(0.7)
Defined benefit pension scheme interest charge (see note 22(b))	(2.6)	(1.2)
	(3.3)	(1.9)

7. Loss on ordinary activities before tax

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2013	2012
	£m	£m
Profit on disposal of tangible fixed assets	(2.2)	(1.3)
Operating lease rentals		
Land and buildings	11.8	12.1
Plant and machinery	4.8	8.8
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
Owned assets	268.4	260.8
Under finance leases	7.5	7.9
Amortisation of goodwill - subsidiaries	69.8	72.1
Impairment of goodwill - subsidiaries	-	24.8
Research and development expenditure	0.2	0.1
During the year the group obtained the following services from the company's auditors:		
Fees payable to the company's auditors for the audit of the company and the consolidated financial statements	-	-
Fees payable to the company's auditors for other services		
The audit of the company's subsidiaries	0.3	0.4
Audit-related assurance services	0.1	0.1
Other assurance services	0.1	-
Other non-audit services	0.9	0.6
	1.4	1.1

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 relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to system improvements, pensions, IFRS advice and risk management.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

8. Taxation

	2013	2012
	£m	£m
Analysis of (credit)/charge in the year		
Current tax:		
UK corporation tax - current year	6.3	8.8
Adjustment in respect of previous periods	-	(7.1)
	6.3	1.7
Foreign tax	0.5	0.5
Total current tax charge	6.8	2.2
Deferred tax:		
Charge for timing differences arising in year	4.4	3.3
Impact of discounting on deferred tax liability	(17.8)	(7.4)
Impact of decrease in discount rates	7.5	44.4
Adjustments in respect of previous periods	(4.9)	(1.7)
Effect of reduction in corporation tax rate	(7.1)	(8.2)
Total deferred tax (credit)/charge (see note 21)	(17.9)	30.4
Total tax (credit)/charge on loss on ordinary activities	(11.1)	32.6

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £7.5 million (2012: £44.4 million) in the year. If all UK gilt rates moved by 0.25%, a change in the tax charge of between £10.0 million and £15.0 million would occur.

During the year, as a result of the change in the UK corporation tax rate from 24% to 23% that is effective from 1 April 2013, all relevant deferred tax balances have been re-measured. Further changes to the UK corporation tax rate have been announced which propose to reduce the rate by 2% per annum to 21% from 1 April 2014 and by a further 1% to 20% from 1 April 2015. These changes, which have been substantively enacted in the Finance Act 2013 on 2 July 2013, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements.

The effect of the reduction in the corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015 would be to reduce the deferred tax liability provided at the balance sheet date, and to reduce the tax charge for the year ended 31 March 2014, by £20.2 million.

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 2013 and 2012, relate to adjustments to prior year capital allowance claims.

In addition to the current tax charge above, a £6.5 million (2012: £8.8 million) credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher (2012: higher) than the standard rate of corporation tax in the UK of 24% (2012: 26%). The differences are explained below:

	2013	2012
	£m	£m
Loss on ordinary activities before taxation	(57.1)	(61.2)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 24% (2012: 26%)	(13.7)	(15.9)
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	25.4	28.9
Capital allowances for the year less than depreciation	3.6	21.8
Short-term timing differences	(8.0)	(25.1)
Difference in foreign tax rates	(0.5)	(0.5)
Losses in joint venture companies	-	0.1
Adjustments in respect of previous periods	-	(7.1)
Current tax charge for the year	6.8	2.2

The company is not subject to Jersey income tax and withholding tax, as it is not resident in Jersey due to its business being centrally managed and controlled abroad.

9. Employee information

	2013	2012
	£m	£m
Staff costs for the group		
Wages and salaries	212.3	238.1
Social security costs	18.4	21.1
Pension costs - defined contribution (see note 22)	6.4	7.6
Pension costs - defined benefit (see note 22)	10.9	(27.6)
	248.0	239.2

Staff costs for the year ended 31 March 2013 include £48.5 million (2012: £44.6 million) of costs that have been capitalised within 'own work capitalised' and £nil (2012: £3.2 million) of redundancy costs charged to exceptional operating costs. In addition, the defined benefit pension costs for the year ended 31 March 2012 are net of the curtailment credit on pensions of £43.5 million (see note 22(b)).

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	2013	2012
Continuing operations		
Anglian Water	3,931	3,765
AWG Property	11	12
Other	203	236
	4,145	4,013
Discontinued operations		
Morrison Facilities Services	1,822	3,454
	5,967	7,467

The 'Other' business segment mainly comprises head office, Celtic Anglian Water, Alpheus Environmental and a few residual international interests.

The company

The company has no employees (2012: none).

Notes to the group financial statements (continued)

for the year ended 31 March 2013

10. Profit of the parent company

The company has not presented its own profit and loss account as permitted by FRS 2 'Accounting for subsidiary undertakings'. The profit for the year, dealt with in the financial statements of the company, is £104.5 million (2012: £150.7 million).

11. Dividends

Interim dividends paid during the year

	2013	2012
	£m	£m
Paid on:		
7 December 2012	55.0	-
8 June 2012	49.5	-
8 December 2011	-	50.9
8 June 2011	-	100.0
	104.5	150.9

In addition, a first interim dividend of £83.0 million in respect of the year ended 31 March 2014 was approved by the board on 22 May 2013 and was paid on 10 June 2013. This dividend has not been included as a liability at 31 March 2013.

12. Intangible assets

	Goodwill
	£m
The group	
Cost	
At 1 April 2012	1,442.1
Disposal of subsidiary undertakings	(70.6)
At 31 March 2013	1,371.5
Amortisation	
At 1 April 2012	(410.5)
Charge for the year	(69.8)
Disposal of subsidiary undertakings	44.2
At 31 March 2013	(436.1)
Net book amount	
At 31 March 2013	935.4
At 31 March 2012	1,031.6

The company

The company has no intangible assets (2012: none).

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

13. Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2012	44.0	3,334.6	2,909.3	538.1	346.9	7,172.9
Additions	1.7	-	-	1.0	504.4	507.1
Transfers on commissioning	0.8	129.8	163.9	75.5	(370.0)	-
Disposals	(1.0)	-	-	(1.0)	-	(2.0)
Disposal of subsidiary undertakings	(1.2)	-	-	(12.1)	-	(13.3)
At 31 March 2013	44.3	3,464.4	3,073.2	601.5	481.3	7,664.7
Grants and contributions						
At 1 April 2012	-	(66.0)	-	-	(1.5)	(67.5)
Additions	-	(12.7)	-	-	1.5	(11.2)
At 31 March 2013	-	(78.7)	-	-	-	(78.7)
Depreciation						
At 1 April 2012	(4.1)	(422.9)	(637.2)	(303.3)	-	(1,367.5)
Charge for the year	(0.5)	(94.5)	(132.1)	(57.4)	-	(284.5)
Disposals	0.2	-	-	0.7	-	0.9
Disposal of subsidiary undertakings	0.6	-	-	9.4	-	10.0
At 31 March 2013	(3.8)	(517.4)	(769.3)	(350.6)	-	(1,641.1)
Net book amount						
At 31 March 2013	40.5	2,868.3	2,303.9	250.9	481.3	5,944.9
At 31 March 2012	39.9	2,845.7	2,272.1	234.8	345.4	5,737.9

Tangible fixed assets at 31 March 2013 include land of £25.1 million (2012: £24.7 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to tangible fixed assets held under finance leases:

	2013 £m	2012 £m
Cost	113.6	113.6
Aggregate depreciation	(48.3)	(40.8)
Net book amount at 31 March	65.3	72.8
Depreciation charged in year	(7.5)	(7.9)

The company

The company has no tangible fixed assets (2012: none).

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

14. Investments

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Fixed assets				
Joint ventures (see note a)	-	-	-	-
Other investments (see note b)	-	-	-	-
Subsidiary undertakings (see note c)	-	-	1,211.2	1,211.2
	-	-	1,211.2	1,211.2
Current assets				
Listed investments (see note d)	8.0	-	-	-
Cash deposits (see note e)	129.0	134.1	-	-
	137.0	134.1	-	-

a) Joint ventures

	£m
The group	
Amount under equity method of accounting	
At 1 April 2012	-
Result for the year	-
At 31 March 2013	-

The result for the year of joint ventures is stated after operating profits of £1.5 million (2012: £1.3 million) less interest payable of £1.5 million (2012: £1.5 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2013.

Undertaking	Country of incorporation	Activity	Proportion of shares held
AWG Property			
Excel Centre Aberdeen Limited	Scotland	Property development	50%
Shawlands Retail Limited	Scotland	Property development	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Anglian Water Group Limited.

The accounting year-end for the above undertakings is 31 March, with the exception of Excel Centre Aberdeen Limited which has a year-end of 31 May. The class of shares held is ordinary shares of £1 each.

b) Other investments

Other investments include a 4.25% investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina. This investment is held at its cost of £nil (2012: £nil). The net book value at 31 March 2013 included £nil (2012: £nil) of shares.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

14. **Investments** (continued)

c) **Subsidiary undertakings**

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Total £m
The company			
Cost			
At 1 April 2012 and at 31 March 2013	548.0	663.2	1,211.2

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

The principal subsidiary undertakings of the group are listed in note 31.

d) **Listed investments**

	£m
The group	
Cost	
At 1 April 2012	-
Additions	8.0
At 31 March 2013	8.0

Listed investments comprise equity shares in Mears Group Plc which were received as part of the consideration for the disposal of Morrison Facilities Services (see note 29). The market value of this investment at 31 March 2013 was £9.6 million. A tax charge of £0.4 million would be payable if the investments were sold at the market value shown but this would be covered by losses elsewhere in the group.

Subsequent to the year-end, on 25 April 2013, the group's holding of shares in Mears Group Plc were sold for a total consideration of £9.3 million.

e) **Cash deposits**

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet.

15. **Stocks**

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Raw materials and consumables	10.2	10.8	-	-
Work in progress	14.8	15.4	-	-
	25.0	26.2	-	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

16. Debtors

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Amounts falling due within one year				
Trade debtors	199.5	197.7	-	-
Amounts due from customers for contract work	-	0.1	-	-
Amounts owed by joint ventures				
Trade balances	0.6	0.5	-	-
Loans	11.4	11.3	-	-
Corporation tax recoverable	-	1.5	-	-
Other debtors	15.8	16.1	-	-
Prepayments and accrued income	257.1	221.1	-	-
	484.4	448.3	-	-

Prepayments and accrued income as at 31 March 2013 includes water and wastewater income not yet billed of £243.7 million (2012: £173.1 million). The increase in the accrued income is due principally to a change in the frequency of billing certain measured customers from six monthly to annually.

17. Creditors: amounts falling due within one year

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Current portion of loans and other borrowings	658.5	230.9	-	-
Obligations under finance leases	3.9	3.5	-	-
Short-term borrowings (see note 19)	662.4	234.4	-	-
Trade creditors	172.0	193.0	-	-
Receipts in advance	205.7	121.3	-	-
Amounts owed to joint ventures	0.5	0.5	-	-
Other creditors	4.9	14.7	-	-
Corporation tax	0.6	-	-	-
Other taxation and social security	4.0	12.6	-	-
Accruals and deferred income	159.3	199.0	-	-
Deferred grants and contributions	8.5	8.1	-	-
Other creditors	555.5	549.2	-	-

Receipts in advance includes £188.8 million (2012: £107.4 million) relating to amounts received from customers for water and wastewater charges in respect of bills that fall due in the following year. The increase reflects a change in billing frequency for certain measured customers from six monthly to annually.

18. Creditors: amounts falling due after more than one year

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Non-current portion of long-term loans	6,866.4	6,630.8	-	-
Obligations under finance leases	53.6	57.7	-	-
Loans and other borrowings (see note 19)	6,920.0	6,688.5	-	-
Other creditors	-	0.4	-	-
Deferred grants and contributions	132.9	132.1	-	-
Other creditors	132.9	132.5	-	-

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments

Loans and other borrowings

	Notes	Group		Company	
		2013 £m	2012 £m	2013 £m	2012 £m
£100 million 12.375% fixed rate 2014	d, g, i	103.4	107.8	-	-
£250 million 5.837% fixed rate 2022	d, g	261.2	262.3	-	-
£200 million 6.875% fixed rate 2023	d, g	221.8	224.0	-	-
£200 million 6.625% fixed rate 2029	d, g	220.9	222.2	-	-
£246 million 6.293% fixed rate 2030	d, g	272.0	273.6	-	-
£275 million 7.882% fixed rate 2012/2037 ⁽¹⁾	d, f, g	-	217.8	-	-
£250 million 5.25% fixed rate 2015	b, d, g	250.9	251.2	-	-
£150 million 5.5% fixed rate 2017/2040 ⁽²⁾	b, d, f, g	150.4	150.5	-	-
£150 million 4.125% index-linked 2020	c, d, g	243.4	240.0	-	-
£75 million 3.666% index-linked 2024	c, d, g	119.2	117.3	-	-
£200 million 3.07% index-linked 2032	c, d, g	334.9	329.5	-	-
£60 million 3.07% index-linked 2032	c, d, g	100.9	99.2	-	-
Finance leases	b, d, g, i	57.5	61.2	-	-
£150 million index-linked swap 2024	e, g	45.7	40.4	-	-
£175 million index-linked swap 2030	e, g	64.2	57.8	-	-
£258 million index-linked swap 2013	e, g, i	92.2	78.3	-	-
Euro 650 million 4.625% fixed rate 2013	a, b, d, g, i	454.5	456.9	-	-
£402 million 2.4% index-linked 2035	c, d, g	536.7	522.2	-	-
£50 million 1.7% index-linked 2046	c, d, g	71.3	69.7	-	-
£50 million 1.7% index-linked 2046	c, d, g	71.6	69.7	-	-
£40 million 1.7146% indexation bond 2056	c, d, g	59.8	58.5	-	-
£50 million 1.6777% indexation bond 2056	c, d, g	74.1	72.5	-	-
£60 million 1.7903% indexation bond 2049	c, d, g	88.8	86.9	-	-
£100 million 1.3784% indexation bond 2057	c, d, g	125.7	121.4	-	-
£50 million 1.3825% indexation bond 2056	c, d, g	62.8	60.7	-	-
£100 million Class A wrapped floating rate bonds	d, g	99.9	99.9	-	-
£100 million index-linked swap 2057	e, g	24.8	19.8	-	-
£75 million 1.449% indexation bond 2062	c, d, g	89.5	85.5	-	-
£50 million 1.52% indexation bond 2055	c, d, g	59.6	56.9	-	-
JPY 15 billion 2.925% fixed rate bond 2018/2037	a, b, d, g	65.9	65.9	-	-
£65.9 million index-linked swap 2059	e, g	12.8	9.4	-	-
£110 million Class A unwrapped floating rate bonds 2043	d, g	109.9	109.9	-	-
£50 million index-linked swap 2043	e, g	8.7	7.0	-	-
JPY 5 billion 3.22% fixed rate bond 2038	a, b, d, g	25.0	25.0	-	-
Euro 500 million 6.25% fixed rate bond 2016	a, d, g	393.2	392.9	-	-
£25 million 6.875% private placements 2034	d, g	24.6	24.6	-	-
£100 million Class B 6.75% fixed rate bond 2024 ⁽³⁾	d, g	60.7	99.0	-	-
EIB £50 million 1.626% index-linked term facility 2019	c, d, g	57.7	56.1	-	-
EIB £50 million 1.3% index-linked term facility 2020	c, g	56.9	55.4	-	-
£130 million 2.262% indexation bond 2045	c, d, g	144.0	140.0	-	-
US\$ 160 million 4.52% private placements 2021	a, b, d, g	98.6	98.5	-	-
US\$ 410 million 5.18% private placements 2021	a, b, d, g	258.8	258.6	-	-
EIB £75 million 0.53% index-linked term facility 2027 ⁽⁴⁾	c, d, g	77.4	75.3	-	-
EIB £75 million 0.79% index-linked term facility 2027 ⁽⁴⁾	c, d, g	77.4	75.3	-	-
£250 million 4.5% fixed rate 2027	d, g	245.6	-	-	-
£15 million 1.37% index-linked private placements 2022	c, d, g	15.0	-	-	-
£50 million 2.05% index-linked private placements 2033	c, d, g	50.6	-	-	-
£25.5 million 4.195% private placements 2017	d, g	25.3	-	-	-
£31.9 million 3.983% private placements 2022	d, g	31.7	-	-	-
£73.3 million 4.394% private placements 2028	d, g	73.1	-	-	-
Sub-total carried forward		6,270.6	6,006.6	-	-

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Loans and other borrowings (continued)

	Notes	Group		Company	
		2013 £m	2012 £m	2013 £m	2012 £m
Sub-total brought forward		6,270.6	6,006.6	-	-
£22.3 million 3.983% private placements 2022	d, g	22.1	-	-	-
US \$47 million 5% private placements 2022	a, b, d, g	29.7	-	-	-
EIB £150 million 0% index-linked term facility 2028 ⁽⁵⁾	c, d, g	150.4	-	-	-
£200 million Class B 4.5% fixed rate 2026	b, d, g	197.4	-	-	-
£100 million term facility	b, d, h	97.4	96.4	-	-
£350 million Class B 7.0% fixed rate bond 2018	d, h	345.0	343.9	-	-
Loan notes	i	1.4	8.2	-	-
£462 million 10% unsecured loan notes 2018	d	461.4	461.3	-	-
Other loans	i	7.0	6.5	-	-
Total loans and other borrowings		7,582.4	6,922.9	-	-
Included in:					
Creditors falling due within one year		662.4	234.4	-	-
Loans and other borrowings due after more than one year		6,920.0	6,688.5	-	-

⁽¹⁾ The coupon for this instrument increased to Floating rate LIBOR plus 6.0% effective July 2012. The bond contained an issuer call option whereby from 30 July 2012 the bond could be redeemed on any interest payment date for 100% of the nominal amount of the bond. This option was exercised on 30 July 2012 when the outstanding nominal amount on the bond was redeemed at par.

⁽²⁾ The coupon for this instrument will increase to floating rate 3 month LIBOR plus 3.5% effective October 2017. The bond contains an issuer call option whereby the bond can be redeemed on 10 October 2017 and on any interest payment date from 10 January 2018 for 100% of the nominal amount of the bond.

⁽³⁾ The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10.9% effective June 2014. The bond contains an issuer call option whereby the bond can be redeemed at par on 11 June 2014 and on each interest payment date thereafter. During the year to 31 March 2013 the group undertook a tender offer on the bond and redeemed and cancelled £39.1 million bonds of this instrument.

⁽⁴⁾ These instruments are amortising from 2017 until the date of maturity shown.

⁽⁵⁾ This instrument is amortising from 2018 until the date of maturity shown.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Loans and other borrowings (continued)

- (a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings. The adjustment to the US dollar borrowings is £(16.2) million (2012: £3.4 million), the adjustment to the Euro borrowings is £(123.0) million (2012: £(111.8) million) and the adjustment to the Japanese Yen borrowings is £(48.7) million (2012: £(60.3) million).
- (b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy.
- (c) The value of the capital and interest elements of the index-linked loans are linked to movements in the Retail Price Index. The total increase in the capital value of index-linked loans during the year of £71.8 million (2012: £100.9 million) has been taken to the profit and loss account as part of interest payable.
- (d) These loans are shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments.
- (e) The group has entered into six (2012: six) index-linked interest rate swap agreements. The values of the notional capital on these swaps are linked to movements in the Retail Price Index. The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £39.7 million (2012: £48.7 million) has been taken to the profit and loss account as part of interest payable. In addition a forward starting index-linked interest rate swap agreement for £25.0 million has been contracted at 31 March 2013.
- (f) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.
- (g) A security agreement dated 30 July 2002 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) creates a fixed and floating charge 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 2013 this charge applies to £6,670.2 million (2012: £6,006.6 million) of the debt listed above.
- (h) A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2013 this charge applies to £442.4 million (2012: £440.3 million) of the debt listed above.
- (i) Amounts repayable wholly or partly within one year.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Maturity analysis of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, at 31 March was as follows:

	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
At 31 March 2013				
Less than one year	658.5	3.9	8.1	670.5
Between one and two years	60.7	8.9	8.0	77.6
Between two and five years	1,127.2	15.5	11.1	1,153.8
After five years	5,678.5	29.2	25.5	5,733.2
	7,524.9	57.5	52.7	7,635.1
At 31 March 2012				
Less than one year	230.9	3.5	7.5	241.9
Between one and two years	644.6	3.9	4.5	653.0
Between two and five years	740.5	18.6	7.8	766.9
After five years	5,245.7	35.2	24.0	5,304.9
	6,861.7	61.2	43.8	6,966.7

The group analysis is net of issue costs of £36.6 million (2012: £32.8 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 5).

Other financial liabilities comprise creditors: amounts falling due after more than one year of £nil (2012: £0.4 million) and provisions of £52.7 million (2012: £43.4 million).

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

	2013		2012	
	Creditors: amounts falling due within one year £m	Creditors: amounts falling due after more than one year £m	Creditors: amounts falling due within one year £m	Creditors: amounts falling due after more than one year £m
Amounts owed	651.5	6,903.0	226.2	6,661.8
Debt issue costs	-	(36.6)	(0.1)	(32.7)
Obligations under finance leases	3.9	53.6	3.5	57.7
Other loans	7.0	-	4.8	1.7
	662.4	6,920.0	234.4	6,688.5

Borrowing facilities

	2013 £m	2012 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	365.0	360.0
Expiring between two and five years	445.0	445.0
	810.0	805.0

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Financing structure

The group's regulated water and wastewater business, Anglian Water, is funded predominately 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 2013 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 79.5% (2012: 79.2%).

The group has also raised finance within Osprey Holdco Limited, Osprey Acquisitions Limited and Anglian Water (Osprey) Financing Plc.

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance & 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 minimise interest costs;
- invest temporary surplus cash to best advantage at minimal financial risk;
- maintain an excellent reputation with providers of finance and rating agencies;
- promote management techniques and systems;
- enhance control of financial resources; and
- monitor counter party credit exposure.

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. Treasury matters are reported to the board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance & 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 (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the treasury policy.

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

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by Osprey Holdco Limited, Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc 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.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Market risk

a) Foreign currency

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

b) 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.

c) Commodity price risk

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

Credit risk

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

Liquidity risk

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

Financial instruments disclosures

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

Fair value of financial assets and financial liabilities

	2013		2012	
	Book value £m	Fair value ⁽¹⁾ £m	Book value £m	Fair value ⁽¹⁾ £m
Cash at bank and in hand (including short-term deposits)	1,027.4	1,027.4	689.2	689.2
Cash deposits	129.0	129.0	134.1	134.1
Short-term borrowings	(664.8)	(686.8)	(234.3)	(232.4)
Long-term borrowings	(6,853.4)	(7,721.9)	(6,639.3)	(7,155.9)
Interest rate swaps	184.2	184.8	163.3	203.2
Index-linked swaps	(248.4)	(717.9)	(212.6)	(583.4)
Net debt	(6,426.0)	(7,785.4)	(6,099.6)	(6,945.2)
Listed investments	8.0	9.6	-	-
Energy hedging instruments	-	(3.2)	-	(0.7)
Provisions excluding deferred tax (see note 20)	(52.7)	(104.8)	(43.4)	(78.9)
Other financial liabilities	-	-	(0.4)	(0.4)
	(6,470.7)	(7,883.8)	(6,143.4)	(7,025.2)

⁽¹⁾ The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £120.3 million (2012: £122.4 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors: amounts falling due within one year.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Fair value of financial assets and financial liabilities (continued)

The fair value of listed current asset investments represents the market value of the equity shares.

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

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

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2013. The value at that date was determined by market interest rates, which fluctuate over time.

The fair value of the group's energy hedging instruments is calculated to reflect the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2013. The value at that date was determined by market rates, which fluctuate over time.

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

The fair value of the group's other financial liabilities has been estimated as not materially different from the book value.

Unrecognised gains and losses on hedges

	2013			2012		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at the beginning of the year	113.5	(480.6)	(367.1)	114.3	(336.5)	(222.2)
Reversal of items unrecognised at the beginning of the year	(1.2)	-	(1.2)	(8.0)	-	(8.0)
Recognised during the year	(49.9)	72.2	22.3	(48.4)	55.8	7.4
Arising during the year	39.7	(217.9)	(178.2)	55.6	(199.9)	(144.3)
Unrecognised at 31 March	102.1	(626.3)	(524.2)	113.5	(480.6)	(367.1)

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £524.2 million (2012: £367.1 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2013.

Of the unrecognised gains and losses at 31 March 2013, a net gain of £34.4 million (2012: £20.2 million) is expected to be included in the profit and loss account for the year ended 31 March 2014 and the balance in future years.

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

Notes to the group financial statements (continued)

for the year ended 31 March 2013

19. Loans, other borrowings and financial instruments (continued)

Currency and interest rate analysis of net financial assets/(liabilities)

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate weighted average interest rate	Fixed rate weighted average years to maturity
At 31 March 2013							
Total borrowings (all sterling) ⁽¹⁾	(7,582.4)	(3,722.0)	(675.9)	(3,184.5)	-	7.1%	9.0
Cash and cash deposits							
Sterling	1,149.9	-	1,149.9	-	-		
Euro	5.5	-	5.5	-	-		
Other currencies	1.0	-	1.0	-	-		
Net debt	(6,426.0)	(3,722.0)	480.5	(3,184.5)	-		
Listed investments	8.0	-	-	-	8.0		
Provisions	(52.7)	-	-	-	(52.7)		
Net financial assets/(liabilities)	(6,470.7)	(3,722.0)	480.5	(3,184.5)	(44.7)		
At 31 March 2012							
Total borrowings (all sterling) ⁽¹⁾	(6,922.9)	(3,411.8)	(584.9)	(2,926.2)	-	7.8%	8.8
Cash and cash deposits							
Sterling	817.1	-	817.1	-	-		
Euro	5.3	-	5.3	-	-		
Other currencies	0.9	-	0.9	-	-		
Net debt	(6,099.6)	(3,411.8)	238.4	(2,926.2)	-		
Provisions	(43.4)	-	-	-	(43.4)		
Other financial liabilities	(0.4)	-	-	-	(0.4)		
Net financial assets/(liabilities)	(6,143.4)	(3,411.8)	238.4	(2,926.2)	(43.8)		

⁽¹⁾ The underlying currencies of borrowings as set out in the table of loans and other borrowings on pages 54 and 55 have been swapped to sterling.

The above tables reflect the net position after hedging arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at the year-end. Floating rate cash and cash deposits earn interest based on LIBID (London Inter Bank Bid Rate) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

20. Provisions for liabilities

	Deferred tax £m	Onerous leases £m	Other onerous contracts £m	Business closures and disposals £m	Contract and other £m	Total £m
The group						
At 1 April 2012	78.4	22.6	17.3	2.1	1.4	121.8
Charge/(credit) for the year	(18.9)	8.1	4.6	3.9	-	(2.3)
Unwinding of discount	-	0.7	-	-	-	0.7
Utilised in the year	-	(5.2)	-	(2.0)	(0.5)	(7.7)
Disposal of subsidiary undertakings	1.9	-	-	-	(0.3)	1.6
At 31 March 2013	61.4	26.2	21.9	4.0	0.6	114.1

The deferred tax provision and the effect of discounting is analysed in note 21.

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 11 years.

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

Business closure and disposal provisions relate to exit costs, principally the disposal of the international businesses, and the restructuring of the Property business, which are expected to crystallise over a period of two years.

The contract and other provisions comprise uncertain warranty and certification costs of £0.4 million (2012: £1.1 million), which are expected to crystallise over a period of approximately two years and £0.2 million (2012: £0.3 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately one year.

The company

The company has no provisions for liabilities (2012: none).

Notes to the group financial statements (continued)

for the year ended 31 March 2013

21. Deferred tax

The group

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

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £68.1 million.

	<u>£m</u>
At 1 April 2012	78.4
Deferred tax credited to the profit and loss account	(17.9)
Less amounts included elsewhere in the balance sheet:	
Deferred tax charged in respect of movements in the deferred tax asset on pension liabilities	(1.0)
Disposal of subsidiary undertakings	1.9
At 31 March 2013	<u>61.4</u>

	<u>2013</u> <u>£m</u>	<u>2012</u> <u>£m</u>
Accelerated capital allowances	749.0	782.5
Short-term timing differences	(84.1)	(95.0)
Surplus ACT asset	(142.5)	(142.5)
Undiscounted provision for deferred tax	522.4	545.0
Discount	(461.0)	(466.6)
Discounted provision for deferred tax	61.4	78.4
Deferred tax asset on pension liability (see note 22)	(19.8)	(13.5)
Total deferred tax liability included in the balance sheet	<u>41.6</u>	<u>64.9</u>

The following are deferred tax assets that are not recognised in the accounts

Surplus ACT	22.8	22.8
Tax losses carried forward	1.8	2.6
	<u>24.6</u>	<u>25.4</u>

The surplus ACT of £22.8 million was written off in subsidiary undertakings in prior years and will not be recognised in the balance sheet until its recoverability becomes certain. The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has no deferred tax (2012: none).

Notes to the group financial statements (continued)

for the year ended 31 March 2013

22. 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. The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). These are all final salary. 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 group's actuary is PricewaterhouseCoopers LLP.

During the year, the Morrison Facilities Pension Scheme ('MFPS'), together with the group's share of various Local Government Pension Schemes, were disposed of as part of sale of the Morrison Facilities Services business (see note 29).

The defined benefit arrangements are 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, and as at 1 April 2011 for MPLAP, the results of which have been used as a basis for the FRS 17 disclosures as at 31 March 2013.

Following a comprehensive review process, in 2011 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme. These changes resulted in a curtailment credit of £43.5 million in the year ended 31 March 2012.

The group contributed 12.5% (2012: 21.2%) of pensionable pay plus £21.6 million (2012: £21.8 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.6 million (2012: £7.1 million) during the year and to MFPS were 21.4% (2012: 21.4%) of pensionable salaries plus £117,000 per month to 30 April 2012 (2012: £117,000 per month). In the year to 31 March 2014, employers' contributions are expected to be £39.0 million.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £6.4 million (2012: £7.6 million).

Notes to the group financial statements (continued)

for the year ended 31 March 2013

22. Pension commitments (continued)

a) Principal actuarial assumptions

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

	2013	2012
	% pa	% pa
Discount rate	4.3	4.8
Inflation rate		
RPI	3.4	3.3
CPI	2.6	2.5
Increase to deferred benefits during deferment		
RPI	3.4	3.3
CPI	2.6	2.5
Increases to inflation related pensions in payment ⁽¹⁾		
RPI	3.3	3.2
CPI	2.6	2.5
General salary increases ⁽²⁾	2.5 / 4.4	2.5 / 4.3
	2013	2012
	years	years
Longevity at age 65 for current pensioners		
Men	23.1	23.0
Women	25.3	25.2
Longevity at age 65 for future pensioners ⁽³⁾		
Men	24.9	24.8
Women	27.3	27.2

⁽¹⁾ For RPI pension increases capped at 5% / 7% per annum.

⁽²⁾ 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 that are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5% per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.4% per annum) and RPI price inflation (3.4% per annum) are both above 2.5% per annum at 31 March 2013, the 2.5% cap on future pensionable salary increases is assumed to apply. Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5% per annum over the period from 1 April 2012 to retirement or earlier leaving.

⁽³⁾ The life expectancy shown for future pensioners is for those reaching 65 in 2033.

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

22. Pension commitments (continued)

b) Amounts recognised in profit or loss

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2013				
Amount charged to staff costs within operating profit				
Current service cost	(8.0)	(2.6)	-	(10.6)
Loss on settlement	-	(0.3)	-	(0.3)
Total operating charge (see note 9)	(8.0)	(2.9)	-	(10.9)
Amount (charged)/credited to other finance income				
Expected return on pension scheme assets	47.7	13.4	-	61.1
Impact of restriction on surplus	-	(0.5)	-	(0.5)
Interest on pension scheme liabilities	(48.3)	(12.8)	(2.1)	(63.2)
Net (charge)/return (see note 6)	(0.6)	0.1	(2.1)	(2.6)
Total charge to profit on ordinary activities before taxation	(8.6)	(2.8)	(2.1)	(13.5)
2012				
Amount credited/(charged) to staff costs within operating profit				
Current service cost	(10.8)	(5.1)	-	(15.9)
Past service cost	(0.9)	0.9	-	-
Gain on curtailment (see note 4)	43.5	-	-	43.5
Total operating credit/(charge)	31.8	(4.2)	-	27.6
Amount (charged)/credited to other finance income				
Expected return on pension scheme assets	53.3	18.0	-	71.3
Interest on pension scheme liabilities	(53.1)	(17.0)	(2.4)	(72.5)
Net (charge)/return	0.2	1.0	(2.4)	(1.2)
Total credit/(charge) to profit on ordinary activities before taxation	32.0	(3.2)	(2.4)	26.4

The actual return on scheme assets was a gain of £122.0 million (2012: £100.6 million).

c) Amounts recognised in the statement of total recognised gains and losses

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2013				
Actual return on pension scheme assets less expected return	49.5	11.4	-	60.9
Changes in assumptions underlying the present value of the scheme liabilities	(95.7)	(22.7)	(2.5)	(120.9)
Changes in amounts not recognised in the balance sheet	-	4.2	-	4.2
Total loss recognised	(46.2)	(7.1)	(2.5)	(55.8)
2012				
Actual return on pension scheme assets less expected return	17.1	12.2	-	29.3
Experience gains and losses arising on the scheme liabilities	35.9	(2.4)	-	33.5
Changes in assumptions underlying the present value of the scheme liabilities	(89.0)	(42.8)	(1.5)	(133.3)
Changes in amounts not recognised in the balance sheet	-	20.2	-	20.2
Total loss recognised	(36.0)	(12.8)	(1.5)	(50.3)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £237.1 million (2012: £181.3 million).

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

22. Pension commitments (continued)

d) Amounts recognised in the balance sheet

	Expected rate of return %pa	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2013					
Equities	6.0	300.5	79.1	-	379.6
Corporate bonds	4.0	443.8	32.7	-	476.5
Government bonds	3.0	219.3	64.7	-	284.0
Property	5.0	50.1	0.4	-	50.5
Alternatives	5.0	23.8	38.7	-	62.5
Other	0.5	62.3	13.0	-	75.3
Total assets		1,099.8	228.6	-	1,328.4
Present value of scheme liabilities		(1,138.3)	(218.1)	(47.5)	(1,403.9)
Amounts not recognised ⁽¹⁾		-	(10.7)	-	(10.7)
Deficit in the schemes		(38.5)	(0.2)	(47.5)	(86.2)
Related deferred tax asset		8.9	-	10.9	19.8
Net pension liability		(29.6)	(0.2)	(36.6)	(66.4)
Comprising:					
Pension schemes with net liabilities		(29.6)	(0.2)	(36.6)	(66.4)
2012					
Equities	6.3	267.2	107.8	-	375.0
Corporate bonds	4.6	420.0	92.6	-	512.6
Government bonds	3.3	214.9	77.7	-	292.6
Property	5.3	45.0	4.3	-	49.3
Alternatives	5.3	39.1	42.2	-	81.3
Other	0.5	18.5	7.2	-	25.7
Total assets ⁽²⁾		1,004.7	331.8	-	1,336.5
Present value of scheme liabilities		(1,017.8)	(317.3)	(45.6)	(1,380.7)
Amounts not recognised ⁽¹⁾		-	(11.9)	-	(11.9)
(Deficit)/surplus in the schemes		(13.1)	2.6	(45.6)	(56.1)
Related deferred tax asset/(liability)		3.2	(0.6)	10.9	13.5
Net pension (liability)/asset		(9.9)	2.0	(34.7)	(42.6)
Comprising:					
Pension schemes with net assets		-	4.4	-	4.4
Pension schemes with net liabilities		(9.9)	(2.4)	(34.7)	(47.0)
		(9.9)	2.0	(34.7)	(42.6)

⁽¹⁾ Amounts not recognised relate to surpluses that cannot be recovered through refunds or a reduction in future contributions, and deficits in excess of agreed liability caps.

⁽²⁾ The 31 March 2012 analysis of total assets for AWGPS has been restated to reflect repurchase agreements.

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

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

Anglian Water Group Limited
Notes to the group financial statements (continued)
for the year ended 31 March 2013

22. Pension commitments (continued)

e) Reconciliation of fair value of scheme assets

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2013				
At 1 April 2012	1,004.7	331.8	-	1,336.5
Expected return on scheme assets	47.7	13.4	-	61.1
Employers' contributions	29.4	8.3	2.7	40.4
Members' contributions	4.0	0.5	-	4.5
Benefits paid	(35.5)	(8.1)	(2.7)	(46.3)
Settlements	-	(7.5)	-	(7.5)
Actuarial gain	49.5	11.4	-	60.9
Disposal of subsidiary undertakings	-	(121.2)	-	(121.2)
At 31 March 2013	1,099.8	228.6	-	1,328.4
2012				
At 1 April 2011	930.1	341.7	-	1,271.8
Expected return on scheme assets	53.3	18.0	-	71.3
Employers' contributions	35.5	13.4	2.6	51.5
Members' contributions	3.6	1.4	-	5.0
Benefits paid	(34.9)	(7.2)	(2.6)	(44.7)
Bulk transfer	-	(47.7)	-	(47.7)
Actuarial gain	17.1	12.2	-	29.3
At 31 March 2012	1,004.7	331.8	-	1,336.5

f) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2013				
At 1 April 2012	(1,017.8)	(317.3)	(45.6)	(1,380.7)
Current service cost	(8.0)	(2.6)	-	(10.6)
Interest cost	(48.3)	(12.8)	(2.1)	(63.2)
Members' contributions	(4.0)	(0.5)	-	(4.5)
Benefits paid	35.5	8.1	2.7	46.3
Settlements	-	7.2	-	7.2
Actuarial loss	(95.7)	(22.7)	(2.5)	(120.9)
Disposal of subsidiary undertakings	-	122.5	-	122.5
At 31 March 2013	(1,138.3)	(218.1)	(47.5)	(1,403.9)
2012				
At 1 April 2011	(974.7)	(310.0)	(44.3)	(1,329.0)
Current service cost	(10.8)	(5.1)	-	(15.9)
Past service cost	(0.9)	0.9	-	-
Gain on curtailment	43.5	-	-	43.5
Interest cost	(53.1)	(17.0)	(2.4)	(72.5)
Members' contributions	(3.6)	(1.4)	-	(5.0)
Benefits paid	34.9	7.2	2.6	44.7
Bulk transfer	-	53.3	-	53.3
Actuarial loss	(53.1)	(45.2)	(1.5)	(99.8)
At 31 March 2012	(1,017.8)	(317.3)	(45.6)	(1,380.7)

Notes to the group financial statements (continued)

for the year ended 31 March 2013

22. Pension commitments (continued)

g) History of schemes

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Deficit at 31 March					
Fair value of scheme assets	1,328.4	1,336.5	1,271.8	1,158.5	928.9
Present value of scheme liabilities	(1,403.9)	(1,380.7)	(1,329.0)	(1,361.4)	(1,034.6)
Amounts not recognised	(10.7)	(11.9)	(26.5)	2.0	3.6
Deficit in the schemes	(86.2)	(56.1)	(83.7)	(200.9)	(102.1)
Related deferred tax asset	19.8	13.5	21.8	56.3	28.6
Net pension liability	(66.4)	(42.6)	(61.9)	(144.6)	(73.5)
History of experience gains and losses					
Actual return on pension scheme assets less expected return	60.9	29.3	31.0	158.3	(182.2)
Experience gains and losses arising on scheme liabilities	-	33.5	15.6	(21.3)	23.1
Changes in assumptions underlying the present value of the scheme liabilities	(120.9)	(133.3)	72.2	(253.3)	112.1
Changes in amounts not recognised in the balance sheet	4.2	20.2	(28.5)	(1.6)	4.0
Amount recognised in the statement of total recognised gains and losses	(55.8)	(50.3)	90.3	(117.9)	(43.0)

Notes to the group financial statements (continued)

for the year ended 31 March 2013

23. Share capital

	Group and Company	
	2013	2012
	£m	£m
Allotted, issued and fully paid		
14,843,754 A ordinary no par value shares	-	-
656,246 B ordinary no par value shares	-	-
109,631,487,794 redeemable preference no par value shares	-	-
	-	-

The B ordinary shares rank pari passu in all respects with the A ordinary shares except that the holders of B ordinary shares shall not have a right to speak or vote at any general meetings or by written resolution in respect of their holdings of B ordinary shares in relation to the appointment or removal of Directors.

The holders of preference shares shall be entitled to receive any dividends resolved to be distributed pro rata to their holdings of preference shares. On a distribution of assets of the company among its members on a winding up or other return of capital (other than a redemption or purchase by the company of its own shares), the holders of the preference shares shall be entitled to receive in priority to any holder of any other class of shares, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. The preference shares are redeemable at the option of the company at a price to be determined by the Board of Directors. The preference shares do not carry any voting rights.

24. Movement in shareholders' funds

The group

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2012	-	1,096.2	(802.6)	293.6
Loss for the financial year	-	-	(48.0)	(48.0)
Actuarial loss recognised on the pension schemes	-	-	(55.8)	(55.8)
Current tax relating to the actuarial loss on the pension schemes	-	-	6.5	6.5
Deferred tax relating to the actuarial loss on the pension schemes	-	-	6.9	6.9
Impact of change in tax rate on deferred tax on pension schemes	-	-	0.1	0.1
Total recognised gains and losses relating to the year	-	-	(90.3)	(90.3)
Dividends paid	-	-	(104.5)	(104.5)
At 31 March 2013	-	1,096.2	(997.4)	98.8

The company

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2012	-	1,096.2	115.0	1,211.2
Profit for the financial year	-	-	104.5	104.5
Dividends paid	-	-	(104.5)	(104.5)
At 31 March 2013	-	1,096.2	115.0	1,211.2

Notes to the group financial statements (continued)

for the year ended 31 March 2013

25. Capital commitments

The group

The group has a substantial long-term investment programme in Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2013.

	2013	2012
	£m	£m
Contracted for but not provided in the financial statements	186.2	220.0

There were no capital commitments relating to the group's share of joint ventures.

The company

The company has no such commitments (2012: none).

26. Commitment under operating leases

At 31 March 2013 the group had annual commitments under non-cancellable operating leases expiring:

	2013		2012	
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	£m	£m	£m	£m
Within one year	0.2	0.4	0.3	0.8
Within two and five years	3.2	0.5	2.7	2.0
After five years	7.6	-	8.8	-
	11.0	0.9	11.8	2.8

The company

The company has no such commitments (2012: none).

27. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also guaranteed financial obligations of joint ventures totalling £7.2 million (2012: £3.8 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary. At 31 March 2013, the group had £142.5 million (2012: £142.5 million), before discounting, of recoverable ACT recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging that we may have infringed the Competition Act 1998 in respect of our approach to pricing supplies to a housing development at Milton Keynes. We served a written response to Ofwat's Statement of Objections refuting the allegations in April 2012. In September 2012 we attended an oral hearing at which we made further representations to Ofwat. We are still waiting for Ofwat's decision as to the outcome of its investigation. If Ofwat rule against Anglian Water, the matter is expected to be immaterial in the context of our overall business.

There are no other material contingent liabilities at 31 March 2013 for which provision has not been made in these financial statements.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

28. Ultimate parent undertaking and controlling party

Anglian Water Group Limited is owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management (IFM), and 3i.

29. Disposal of subsidiary undertakings

On 7 November 2012 the Morrison Facilities Services business, comprising the group's 100% interest in the ordinary share capital of Morrison Facilities Services Limited, together with its subsidiaries, was sold for a gross consideration of £24.0 million. The consideration comprised £16.0 million in cash and £8.0 million in Mears Group Plc shares.

	<u>£m</u>
Net assets disposed	
Intangible assets - goodwill	26.4
Tangible fixed assets	3.3
Stocks	1.7
Debtors	52.9
Cash at bank and in hand	11.4
Short-term borrowings	(7.2)
Other creditors falling due within one year	(58.1)
Provisions for liabilities	1.6
Net pension assets	0.9
Minority interest	(0.6)
	<u>32.3</u>
Loss on disposal	
Consideration received	24.0
Net assets disposed	(32.3)
Disposal costs and associated provisions	(9.5)
	<u>(17.8)</u>

30. 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 period to 31 March 2007 the group issued £462.0 million of 10% unsecured loan notes dated 2017 to the four members of the consortium of investors owning Anglian Water Group Limited. On 26 January 2011 a Deed of Amendment extended the term of the notes to 27 May 2018 and changed the description of the notes accordingly. At 31 March 2013 the amount outstanding was £462.0 million (2012: £462.0 million). Interest of £11.2 million (2012: £11.2 million) has been accrued but not paid on these loan notes.

During the year to 31 March 2013, Anglian Water Services Financing Plc increased its borrowing facilities through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited. The Commonwealth Bank of Australia earned fees of £187,500, which were agreed on normal commercial terms, for this transaction.

During the year to 31 March 2012, Anglian Water Services Financing Plc issued two ten year US dollar private placements through the Commonwealth Bank of Australia. The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 25 and 50 basis points, for these transactions, equating to a total of US\$ 2,450,000.

During the year to 31 March 2013 there were no other transactions, other than £104.5 million of dividends, (2012: none other than £150.9 million of dividends) with the shareholders.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

30. Related party transactions (continued)

b) Transactions with Key Management

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year a return of £0.5 million (2012: £0.7 million) was earned. At 31 March 2013 £5.3 million (2012: £4.8 million) was loaned to the group by Key Management under this scheme. At the balance sheet date Key Management also held various bonds issued by the group totalling £0.4 million (2012: £0.4 million).

c) Other related party transactions

The group's other related party transactions were all with joint ventures of the group and are summarised below:

Year-end balances arising from sales of goods/services

	2013		2012	
	Amounts owed from related parties £m	Amounts owed to related parties £m	Amounts owed from related parties £m	Amounts owed to related parties £m
Joint ventures with AWG Property	0.6	(0.5)	0.5	(0.5)

Loans to related parties

	At 1 April £m	Increase/ (decrease) during the year £m	At 31 March £m
Year ended 31 March 2013			
Joint ventures with AWG Property	11.3	0.1	11.4
Year ended 31 March 2012			
Joint ventures with AWG Property	8.3	3.0	11.3

Loans to related parties were made to fund the ongoing development activities of joint venture companies.

Notes to the group financial statements (continued)

for the year ended 31 March 2013

31. Principal group companies

The principal subsidiary undertakings at 31 March 2013 are shown below. A full list of the group's subsidiaries, joint ventures and associates will be delivered to the registrar with the next annual return.

	<u>Country of incorporation</u>	<u>Activities</u>
Group and Other		
Osprey Holdco Limited ⁽¹⁾	England	Holding and financing company
Osprey Acquisitions Limited	England	Holding and financing company
Alpheus Environmental Limited	England	Wastewater treatment
Anglian Water (Osprey) Financing Plc	England	Financing company
AWG Parent Co Limited	England	Holding company
AWG Group Limited	England	Holding company and provision of administration services to group companies
AWG Holdings Limited	Jersey	Holding company
AWG UK Holdings Limited	England	Holding company
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies
Anglian Water		
Anglian Water Services Limited ⁽²⁾	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Services Financing Plc	England	Financing company
Anglian Water Services Holdings Limited	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Property Services		
AWG Property Limited	Scotland	Development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

⁽¹⁾ This company is owned directly by Anglian Water Group Limited.

⁽²⁾ Including Anglian Water Services trading as Hartlepool Water.

The group also owns a number of smaller and non-trading companies. All of the subsidiaries listed above are 100% owned by the group or the company with the exception of Celtic Anglian Water Limited which is 50% owned. Celtic Anglian Water Limited has been consolidated as a subsidiary undertaking as in the opinion of the Directors the group exercises control over the company.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation.

All subsidiaries have a year-end of 31 March.

All subsidiary undertakings disclosed above are included within the consolidated financial statements.

Independent auditors' report to the member of Anglian Water Group Limited

We have audited the group and parent company financial statements of Anglian Water Group Limited for the year ended 31 March 2013 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Statement of Movement in Shareholders' Funds, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2013 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matter

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



John Maitland
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham, England

9 July 2013