



## **Anglian Water Services Limited**

**Preliminary accounts for the year ended 31 March 2014**

For immediate release 30 May 2014

## Anglian Water Services Limited

### Financial results for year ended 31 March 2014

For immediate release 30 May 2014

#### Highlights

- Strong performance over the year with tight operational cost control
- Retained industry-leading position in customer satisfaction
- Committed not to raise bills by the amount we were entitled to, keeping customer bills down in 2014/15. Reduces the amount payable by customers by £10 million, saving £4 off the average bill
- £427 million invested to enable growth and improve the region's infrastructure, with 4,100 people directly employed by the business
- Company approach to resilience resulted in minimal customer impact following a hot, dry summer, a tidal surge, and widespread flooding
- Leakage still at industry-leading level, and second lowest ever achieved by the business
- Largest ever customer consultation led to over 90% of customers surveyed approving our PR14 Business Plan, even before we improved it further:
  - Average household bills will be kept well below inflation for the six years to 2020
  - Increase to £1 million help targeted at the most vulnerable customers
  - Over £5 billion to be spent on maintaining and improving essential services
  - £60 million war on leakage to keep levels lowest in the UK
  - 95% of households to have a meter fitted by 2020
  - No compulsory metering programme
  - 50,000 customers involved in shaping pricing and spending priorities

Commenting on the company's financial results and operational performance for the year ended 31 March 2014, Peter Simpson, Anglian Water Group's Chief Executive, said:

"Customers have been at the heart of much of what we have achieved in 2013/14. The Business Plan for 2015-20 that we submitted to our regulator Ofwat in December was the outcome of the largest consultation we have ever conducted with our customers, and was the product of a process that gave customers an unprecedented voice in our business planning. We were pleased Ofwat recognised our plan as 'high quality...in many areas'.

"Customer service remains at the heart of our operation. We have been ranked first in the industry, by Ofwat, for customer satisfaction. We see this as evidence that our

focus on customers and the innovative approach we take to this area of our business is working. We have achieved first place for the second year running, and came top overall for this regulatory period, in the Service Incentive Mechanism (SIM) qualitative league table.

"We recognise the significant pressures that household budgets are currently under. That is why we took the decision to abate 'K' for 2014/15, thereby not increasing bills by the full amount we were entitled to, and saving around £4 on the average household bill. The cost of living challenge will remain central to much of our decision making in the coming year.

"We remain one of the most significant investors and employers in our region. During the year we invested around £427 million<sup>1</sup> in projects to enable growth, improve the infrastructure in our region and enhance the resilience of our network; while directly employing 4,100 people and many thousands more indirectly through our supply chain. This is in the context of over £2 billion of investment being delivered in this current regulatory period to 2015.

"As we continue to demonstrate our leadership by driving higher standards in the management of water quality, the past year has seen 25 of our scientists become Chartered against a new award specific to the Water Industry and established by ourselves, the Institute of Water and the Science Council. We are also pleased with the progress made through our targeted customer campaign, Keep Water Healthy, to address the 'next front' to improve drinking water quality.

"Another year of extremes of weather posed challenges for our operation. However, the legacy of investment made during the 2011/12 drought, and tight operational management, means that the unusually hot and dry summer had minimal impact on customers.

"The dry summer was followed by a very wet winter leading to widespread flooding around the country. Impact in our region was less significant than elsewhere, but we responded quickly where we were able to help customers deal with the difficulties they faced.

"A tidal surge at the beginning of December posed very serious challenges for the region, as the highest tides for 50 years battered the coastline. Widespread flooding caused significant damage, and the impact could have been far more severe had weather conditions not improved as the surge reached its peak. Our emergency response, combined with our organisational readiness, helped mitigate the worst impacts.

"Our overall approach to resilience stood up well to several tests this year. The dry summer, the wet winter and the tidal surge did not cause significant problems for our customers.

"In light of these extremes in weather, we are encouraged by the continued overall reduction in pollution incidents towards our goal of no pollutions, but recognise the need to maintain our focus on reducing the number of more serious events where there is no single root cause but rather a mixture, including the weather.

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<sup>1</sup> £424 million appointed business and £3 million non-appointed business

“Our leakage level remains industry-leading, and is at its second lowest ever level this year. Customers regularly comment on the importance they place on this area of work, which we believe vindicates our decision to invest in this area over the last two years, despite the threat of drought receding. This investment also contributed significantly to the minimal impact felt by customers during the hot summer.

“Over the coming months we will remain focused on excellence in our operation, and on securing the best possible settlement from Ofwat for customers and the business, in view of the challenges our region faces.”

## Financial summary<sup>1</sup>

	<b>2014</b>	2013
	<b>£m</b>	£m
Turnover	<b>1,214.0</b>	1,163.0
Operating costs	<b>(451.2)</b>	(445.8)
Depreciation <sup>2</sup>	<b>(271.8)</b>	(262.4)
<b>Operating profit</b>	<b>491.0</b>	<b>454.8</b>
Finance costs (adjusted) <sup>3</sup>	<b>(330.9)</b>	(345.8)
<b>Profit before tax (adjusted)<sup>4</sup></b>	<b>160.1</b>	<b>109.0</b>
Current tax charge	<b>(22.4)</b>	(30.2)
Deferred tax credit	<b>19.1</b>	24.3
Total tax charge	<b>(3.3)</b>	(5.9)
<b>Profit after tax (adjusted)<sup>4</sup></b>	<b>156.8</b>	<b>103.1</b>

<sup>1</sup> Extracted from the audited consolidated profit and loss account as presented on page 30 of this announcement, and prepared in accordance with UK Generally Accepted Accounting Practice

<sup>2</sup> Depreciation net of amortisation of grants and contributions

<sup>3</sup> Finance costs excluding the interest receivable from Anglian Water Services Holdings Ltd of £192.3 million (2013: £192.7 million)

<sup>4</sup> The statutory profit before tax is £352.4 million (2013: £301.7 million), and the statutory profit after tax is £349.1 million (2013: £295.8 million) which includes the interest receivable from Anglian Water Services Holdings Ltd referred to above

Turnover for the year was £1,214.0 million, up 4.4% on last year. This reflects the regulatory price increase of 4.1% (K factor of 1.1% and RPI of 3.0%), and other increases of 0.3% due principally to a recovery in demand from household customers, partially offset by lower demand from our smaller non-household business customers. The net increase is consistent with the drier and warmer weather in the summer of 2013, and early spring of 2014 which saw a return to more normal levels of household

consumption. This was in contrast to the late spring and summer of 2012 being exceptionally wet, which suppressed demand.

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

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

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

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

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

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

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

The current tax charge on the profit before tax of £160.1 million (excluding intra-group interest receivable) was £22.4 million (2013: £30.2 million). This reflects a reduction in the corporation tax rate from 24% to 23% for the year and a higher level of capital allowances claimed on the substantial capital investment we make (including over £2 billion in the current five-year regulatory period), as agreed with our regulator to improve the service to customers. The total tax charge of £3.3 million (2013: charge of £5.9 million) consists of the current tax charge of £22.4 million less a deferred tax credit of £19.1 million (2013: credit of £24.3 million). In the prior year we had a larger deferred tax credit, which was principally attributable to the level of discounting of the deferred tax liability. Total tax paid or collected in the year to 31 March 2014 other than corporation tax amounted to £167 million (2013: £178 million) of which £53 million was collected on behalf of the authorities for net Value Added Tax (VAT) and employee payroll taxes. Further details are provided in the section on fair profits on pages 27 and 28.

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

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

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

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

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

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

Continuing the work we have already done in this current regulatory period to increase our resilience and protect existing customers' supplies, we have invested during the year a further £13 million in leakage detection and repair work and further investment is planned for 2014/15.

An additional £3.4 million was spent on the non-appointed business, mainly in relation to installing two wind turbines at one of our sites as part of our renewable energy commitment.

## Operational performance

### THE YEAR IN CONTEXT

The weather, yet again, played a very significant role in our operational performance during the year. It has been a year of contrasts: the hot summer proved extremely challenging right across the country, drying out the soil and leading to a large number of bursts. Thanks to tight operational management, though, and a programme of investment to improve the resilience of our entire infrastructure, customers remained largely unaffected by the dry weather.

The mild, wetter winter was kind to us, however, with our network experiencing one of the lowest burst rates for a decade. Elsewhere in the country, widespread and prolonged flooding caused severe difficulties for individuals and communities. While we were less dramatically affected in 2014, some areas required significant attention following high tides and periods of intense rainfall.

We were, however, challenged by the highest tidal surge in 50 years at the beginning of December 2013. Careful planning, incident management and partnership working ensured that although the impacts were significant, recovery was rapid. The damage caused could have been far more severe had the weather not improved as the surge reached its peak.

The lack of any significant impact experienced by our customers during all three of these environmental challenges is testament to the success of our company-wide approach to resilience. The quality of both our organisational preparedness for challenging scenarios, and our ability to support customers in our response to incidents as they occur, proved invaluable during the year.

Against this backdrop we have prepared our AMP6 (2015-2020) Business Plan for submission to Ofwat. The plan is the product of our largest ever consultation programme that allowed our customers an unprecedented voice in our business planning process. Over 50,000 people were involved in the consultation, and the resulting business plan was judged to be a good plan by over 90% of those we questioned.

Our business planning process has seen us continue the work we began in 2007, when we produced our Strategic Direction Statement (SDS), and subsequently in 2010 when we launched our Love Every Drop strategy. When producing the SDS we focused on the long-term challenges facing the business, tackling the impacts of climate change and a fast-growing population. Love Every Drop helped us go beyond a 'fixed' view of what the future might hold, and we developed a flexible strategy with a global perspective, that places communities, the environment and the economy at the heart of our thinking and planning.

Love Every Drop has fundamentally challenged how we operate. We have embraced innovation, collaboration and transformation to help redefine how we think a 21<sup>st</sup> Century water company should operate. It's an outcome-based approach to business planning, so it was natural for us to continue with this when creating our AMP6 Business Plan.



We have reported below against the ten outcomes that we believe deliver excellent customer service, affordable bills and a water company that is fit to face the challenges of the 21<sup>st</sup> century.

## **SATISFIED CUSTOMERS**

- Customer service rated best in the industry for the second year running
- More than 93% of customers satisfied with their service, according to Ofwat's SIM survey
- Complaints down more than 15% on last year.

Our customers have rated their satisfaction with our service as the best in the industry for the second year running, as measured by Ofwat's independent qualitative customer satisfaction survey. We have also secured the top spot over the three-year period 2011-2014, showing we are consistently delivering a great service for our customers.

Our contact centres, all UK-based, together with our back office operations, continue to focus on friendly and professional service. Response times are better aligned to customer expectations than they have ever been. Customer satisfaction levels in relation to our contact centres remains high, with more than 98% of customers satisfied or better.

Our own 'Voice of the Customer' team has spoken to more than 40,000 customers this year, gaining valuable insight and measuring our customers' satisfaction. This information is vital in helping us to change and improve our service. According to this survey, some 88% of customers who called our billing contact centres told us that they were very satisfied, with less than 1% expressing any dissatisfaction. Across the business our own research recorded that more than 97% of customers who spoke to our team said they were satisfied or better with our service. This moves us ever closer to our ambitious goal of 100% of our customers being very satisfied with our service.

For the third year in a row we have also seen a reduction in the number of complaints we've received, down more than 15% on the 2012/13 year. Following further customer service training for staff, we have also seen a big improvement in the number of complaints resolved first time. This rose to more than 98%, up from 90% in 2010/11.

During the year we carried out a detailed market research project to better understand what our customers wanted from their bills. Bills have been redesigned as a result, with more changes planned over the next year to better match customer requirements.

A new call centre telephony platform has been introduced, which offers customers the option to receive a call back from us if they contact us during a particularly busy period. We also now do more than we ever have to let customers know if we think their service is likely to be affected by a service outage.

To reinforce our commitment to excellence in customer service, we have begun our journey to gain accreditation by the Institute of Customer Service, ServiceMark. This is a national standard which recognises an organisation's commitment to, and achievement in, customer service.

Innovation remains a driving force in our pursuit of excellence in customer service. For instance, we have significantly developed the service we offer our customers on our social media platforms over the last year, and, at certain times, we now offer a live online chat facility for customers. Effective use of social media is now 'business as usual', and offers our customers choice in how they communicate with us.

## **FAIR CHARGES**

- Average customer bills will rise by less than inflation in 2014/15
- Consulting on a new social tariff to help those facing financial hardship
- Almost 78% of customers now billed on a water meter

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

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

Around 45,000 of our household customers are already supported by the Government's WaterSure scheme, and our own AquaCare Plus tariff. During the year, we have also developed proposals to introduce a new social tariff from 1 April, 2015. Customers would be assessed by an independent advisory agency, with those needing extra help being offered a discounted tariff. We will shortly be completing a customer consultation process to confirm support for our proposals.

Meters remain the fairest way to charge for water because customers only pay for what they use. For this reason, having a meter also encourages water saving. On average, customers with a meter save £100 a year and use 10-15% less water. We have consistently looked to increase the number of customers who are metered, without making it compulsory. Customers have told us they do not want us to force people to switch to a meter.

More than 20,000 customers chose to have a meter fitted during 2013/14, and we also fitted another 29,500 under our enhanced metering programme. This is where we install meters at customers' properties, provide advice on potential savings and leave it for them to decide whether to switch. We also replaced 120,000 meters this year to make sure customers continue to get fair and accurate bills.

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

During 2013/14, we continued our focus on water efficiency, installing water-saving gadgets in more than 13,000 homes as part of our Bits & Bobs programme. We have visited more than 76,000 homes over the last four years, saving households 46 litres a day, on average. We get excellent feedback from customers who really appreciate the savings on their water and energy bills.

Working with the Royal Horticultural Society, our award winning *Potting Shed* campaign continued to promote water saving tips for the garden. At the same time, we have continued to offer garden kits, containing water saving crystals and mats for garden tubs and pots and advice on creating a beautiful garden whilst conserving water.

## **SAFE, CLEAN WATER**

- Maintained water quality compliance level of 99.96% for third year
- Launched the Keep Water Healthy campaign to improve public awareness of things that can affect drinking water quality
- Lead pipe replacement project on target
- Founder member of the national WaterSafe scheme for approved plumbers, which officially launched this year

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

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

2013/14 also marks our third consecutive year without any drinking water quality incidents (events classified as 'serious' or 'major' by the Drinking Water Inspectorate).

We are continually investing to maintain and improve water quality. This year saw work continue on a new, state-of-the-art water treatment works in Newton-on-Trent, built to supply the growing city of Lincoln. We expect this £45 million scheme to come into supply in the second half of 2014.

During the next five years we will carry out work to prevent decline in water quality from nitrates, pesticides and nickel, continue with our strategy to reduce lead in drinking water and protect water quality in buildings.

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

Our newest drinking water campaign, Keep Water Healthy, launched in 2013. While the water we provide is treated, cleaned and disinfected to meet the highest standards, there are many potential issues in people's homes which can compromise quality.

Keep Water Healthy looks to raise awareness of things customers may unwittingly do which can make their water look or taste unusual, or even make it unsafe. The main aim is to prevent plumbing problems in the home that can cause water quality issues. Materials produced include leaflets, interactive web pages, and six information videos on our website and YouTube. Anglian Water's Facebook page has also played a significant role in getting the campaign messages to customers. The next step is to target small businesses like cafes, dentists, vets and offices.

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

This year the legal limit for lead in drinking water fell from 25µg to 10µg (micrograms per litre). We have been working to this new limit for many years, replacing our pipework wherever samples show levels above this value. We have set up a free advice line and last year carried out 554 free lead tests at customers' taps. This was on top of 8,862 other customer tap samples also analysed for lead. In total, we investigated 216 lead sample failures, helping customers find the source of the lead in their property.

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

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

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

Encouraging the use of approved plumbers remains a key objective to reduce the number of incidences of poor quality plumbing affecting water quality. Anglian Water is a founder member of the national WaterSafe scheme for approved plumbers, which officially launched this year. The scheme brings together plumbers from the seven existing Approved Contractors' Schemes across the UK on a free database.

## RESILIENT SERVICES

- A 48% drop in sewer blockages in areas targeted by our Keep it Clear campaign
- Optimised Water Network strategy trials have reduced burst mains by an average of 40%, and reduced leakage by 35%, in areas targeted
- Anti-theft measures at 50 sites to drive down diesel thefts
- Re-certification to ISO 22301 (Business Continuity)
- Maintained services to customers during the highest coastal surge for 50 years

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

In February 2014 we were recertified to ISO 22301 (Business Continuity). We were one of the first companies to achieve this international standard, which assures our customers and key stakeholders that we can keep our business running during, and following, any disruption.

The impact of a changing climate remains one of the most significant risks that we face. At the end of 2013, we published our Climate Change Adaptation Plan. Based on a risk analysis of climate change impacts we have identified the key steps we need to take to adapt our business. This includes embedding adaptation in decision making, identifying and filling gaps in knowledge and engaging internally, in the region, and beyond. Our plan is aligned with the National Adaptation Programme, contributing to a country-wide effort to cope with climate change.

We also recognise the value of working in partnership to protect our business and our customers. Anglian Water employees sit on 13 Local Resilience Forums (LRFs), and the Multi-Agency Support Group (MASG) for the East of England, which bring together organisations with a role in helping the region cope in times of emergency. During 2013/14, we took part in several multi-agency events, exercising our joint response to East Coast flooding, national power outages, major pollution to bathing waters, and community resilience. This close working, particularly with UK Power Networks, paid off several times during the year's extremes of weather, and especially during October's high winds, and in December when our region was hit by the highest coastal surge for 50 years.

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

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

The tidal surge was followed by heavy rain in January, which caused widespread flooding in southern England. The effects of climate change and a growing population are likely to further increase the risk of flooding, both in our region and across the country. This year, we have continued to invest in flood protection measures at 20 water treatment sites.

During 2015-2020, we plan to invest in defences to protect against surface water, river and coastal flooding at more high risk water treatment and water recycling sites where the customer and cost benefit are highest.

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

Our Keep it Clear programme continues to have a significant impact on the number of blockages we are called to deal with on our 76,000km network of sewers and pumping stations. Launched in 2010, the campaign aims to change the way people dispose of fats, oils, grease and other unflushables. We set a target to halve the number of avoidable blockages by 2015 from 2010 levels, and we are on track to meet that target. An average reduction in blockages of 48% has been achieved in the 15 areas targeted so far, and we are scheduled to take the campaign to 10 new locations during 2014/15.

In December 2013, our Keep it Clear Programme Manager became chair of Water UK's Sewer Network Abuse Prevention Group. Talks are now underway with manufacturers and retailers to raise the problems wipes and sanitary products can cause, and to develop a joint customer awareness campaign in response.

We also remain focused on reducing the number of bursts that we have to deal with on our water supply network. Not only is this what customers have told us they want, but it also protects our water resources and lets us spend more time on maintenance. This year we have been running 25 schemes as part of our Optimised Water Networks (OWN) strategy. This aims to improve how we control and monitor our network, reducing problems through better control of pressure in our pipes.

Priority has been given to areas where we can get the most benefit in reducing bursts, interruptions to customers' supply and lower leakage levels. In these areas we have reduced burst mains by an average of 40% and reduced the amount of leakage by 35% or 5.85 megalitres a day (MI/d). At the same time we have serviced or replaced 487 existing pressure reducing valves, resulting in 21.5% fewer burst mains in areas where this work has taken place.

We plan to expand the scale and scope of the programme in AMP6 and are already working with suppliers and others in the business on new and innovative solutions. Our largest optimisation scheme to date, covering 55,000 properties in Peterborough, is already underway.

High fuel prices in 2012/13 coincided with an increase in diesel theft from Anglian Water sites, with approximately 150,000 litres stolen from our water treatment and water recycling centres between April 2012 and September 2013. In response, we installed new anti-theft equipment at 50 sites across the region. As of the end of February, there had been a 68% drop in diesel being stolen.

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

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

In April 2013, we rebranded Osprey Water, our Scottish retail arm, which had been serving business customers in Scotland since market opening five years ago to Anglian Water Business. It is now the one-stop shop for business customers on both sides of the border. The national brand brings together Osprey's experience of winning business in a competitive market place with Anglian Water's decades of expertise in helping businesses save water, energy and money.

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

In November, Anglian Water Business brought together leaders from the water industry, regulators and customers for a roundtable discussion on the future of the water market and the expectations of public sector customers. The debate focused on delivering service, sustainability and value and asked what lessons could be learnt from the water market in Scotland. We were the first English water company to compete in Scotland and continue to learn from our experiences there.

We continuously monitor our business customers' satisfaction with our service and strive to improve it. In response to customer feedback we have launched a new e-billing facility which allows easy analysis of historical trends and better visibility of water consumption and costs.

We also know that help with improving water efficiency and keeping down costs is important, so we have continued to develop a range of services to do just that. Our 'active water management' service helps an increasing number of business customers to ensure they only use as much water as they need to. We

monitor and analyse customers' water use and alert them to opportunities to reduce it, saving precious time and money.

We continue to work with the Open Water Programme to shape the competitive market place, and are using our experience in Scotland to inform our strategy for the years to come. Alongside this work, we will continue to develop and provide innovative services to help customers become more efficient and sustainable in their water use.

## **MAKING SURE SUPPLY MEETS DEMAND**

- Leakage is at its second lowest ever level, with performance beyond that for which we are funded
- Draft Water Resource Management Plan published, setting out how we will balance supply and demand up to 2040
- Contributed to a growing number of planning applications and Local Plans, helping local authorities prepare for a growing population

This winter our region got 213 mm of rainfall, 150% of the long-term average. This resulted in normal or high groundwater and river levels, with reservoir levels at maximum for the time of year. No drought restrictions were imposed during 2013/14 and given the current water resource situation none are expected in 2014/15.

We have now published our Draft Water Resource Management Plan, which lays out how we will balance supply and demand up to 2040. The plan was tested against a number of possible futures. While it proved robust in the short to medium term, there are significant risks in the medium to long-term from the effects of population growth, climate change and growing environmental need. In response, we have included proposals for a long-term strategic water resource planning project, Water Resources in East Anglia (WREA), in our PR14 Business Plan.

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

We continued to deliver key drought and supply demand schemes during 2013/14 to maintain security of supply. Major schemes to abstract and treat 20 million litres of water per day from the River Trent to supply Lincoln, and to transfer 15 million litres of treated water per day from Grimsby to Boston are approaching completion. Schemes to further improve resilience against severe drought in North West Norfolk and Norwich are progressing through the capital delivery process.

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



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

During 2013/14, the Government started consultation on proposals to reform the abstraction licensing system. We are looking to see what this means for us and whether any further investment may be needed to maintain our security of supply.

We also updated our draft Drought Plan and submitted a revised version for consultation in September 2013.

Following the drought of 2010-2012, we made the decision to drive down leakage rates below the target set by our regulators. In 2012/13 we achieved the lowest level of leakage in our history - 189 MI/d compared to our regulatory target of 211 MI/d, a saving of over 10%. This year, in 2013/14, the figure rose slightly to 193 MI/d. Nevertheless, this remains our second lowest leakage rate ever.

Leakage monitoring means we spot and respond to more than 30% of leaks proactively, before customers are even aware of them. We continue to operate a rapid response to leak repairs and fixed more than 80% of all customer reported burst mains within two days. Our ambition is to fix all such bursts within two days, and we are working with local highways authorities and others to achieve this.

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

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

During 2013/14, we have seen a jump in the amount of work related to housing growth in our region, due in part to the Government's 'Help to Buy' scheme and changes to the national planning system. We responded to consultations on 8% more planning applications than the previous year, providing councils with information on what developments would mean for our services. This work allows us to deliver new infrastructure in step with growth. Without it developments could increase the risk of sewer flooding, pollution and low water pressure.

Local Planning Authorities are now required to produce a Local Plan, which maps areas for new housing fifteen years or more ahead. We support a planned approach to new development and help councils in drawing up their plans. We supported the production of 4% more Local Plans last year than in 2012.

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

## **A FLOURISHING ENVIRONMENT**

- 99.9% of our SSSIs are in 'favourable' or 'recovering' condition
- All 48 of the region's bathing waters met European standards for the 12<sup>th</sup> year running
- Publication of a biodiversity field guide for operational employees
- Launch of Shellfish Live, the first scheme in the UK to advise shellfish harvesters about water quality

We own and manage a great deal of land across the region, much of it of value to wildlife. This includes 47 Sites of Special Scientific Interest (SSSIs), covering nearly 3,000 hectares. Of these, 99.9% are judged to be in 'favourable' or 'recovering' condition. Good management means 49% are now 'favourable' compared to a national average of 37%. At Tetney Blow Wells, we completed a programme of tree management in 2013/14 which should see the move into favourable condition over the next two years.

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

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

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

The Gross Value Added of goods and services produced by coastal towns in the Anglian region has been estimated at £576 million a year, while 29,000 jobs in the region are linked to seaside tourism. Clearly, the quality of our coastal waters is of vital importance to the regional economy. Once again, all 48 of the region's bathing waters met the standards set out in the European Bathing Water Directive. They have now met this 'mandatory' standard for 12 years in a row. In 2013, the majority (40) met the higher 'guideline' standard. This is one of the requirements for a bathing water to be given Blue Flag status.

Changes to the Directive mean that from 2015 standards will be even tougher, so we continue to invest, using detailed modeling of our network and the coast itself to target money where it is needed. We were also one of the first UK water companies to provide beach owners, the Environment Agency and others with information about discharges from our combined sewage overflows (CSOs) through our BeachAware system. The system covers all our 48 bathing waters and allows beach owners to better advise bathers on water quality.

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

## **A SMALLER FOOTPRINT**

- 96% of waste recycled across the business
- 64.1 GWh of renewable electricity generated
- Further reductions in operational and embodied carbon

As one of the largest energy users in the East of England, we are working hard to mitigate the causes of climate change. We are leading by example, with a focus on measuring, managing and reducing our carbon emissions and cutting our reliance on finite resources. This brings considerable financial savings, makes our business more sustainable and drives innovation in our company and supply chain.

Annual gross operational carbon emissions have decreased by 8.9% in 2013/14 in comparison to the 2009/10 baseline, decreasing from 485,930 t/CO<sub>2</sub>e to 442,470 t/CO<sub>2</sub>e.

Overall gross emissions have decreased due to a reduction in grid electricity emissions, a 72% reduction in natural gas usage due to a change in an operational treatment process, reduction in grid electricity usage, and increased renewable generation.

Annual net operational carbon emissions, which include exported renewable energy, have reduced by 9.6% in 2013/14 in comparison to the 2009/10 baseline decreasing from 485,307 t/CO<sub>2</sub>e to 438,750 t/CO<sub>2</sub>e.

Our design engineers and capital delivery teams have delivered a 41% reduction in embodied (capital) carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

A detailed breakdown of our emissions is available in our annual Greenhouse Gas Report. Greenhouse gas emission data has been measured and reported in line with Defra Environmental reporting Guidelines, published in June 2013. This includes revised values for our 2009/10 baseline to align with Defra's June 2013 guidance.

Working with our supply chain, we are able to deliver low carbon, low cost solutions. For instance, during 2013, Uttons Drove Water Recycling Centre was extended to serve an additional 15,000 people and cope with a tightening of discharge consents. By adopting a strategy of off-site build, concrete to steel construction and duplicate function of single assets like tank walls, walkways and roads, the scheme was delivered with 48% reduced embodied carbon and 15% lower capital cost.

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

Anglian Water also chairs the Green Construction Board Infrastructure Working Group. As a result, we played a key role in producing the HM Treasury Infrastructure Carbon Review, published in November 2013. This reflected a number of lessons learned from our experiences in carbon management, highlighting the importance of leadership, innovation and procurement in reducing emissions.

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

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

The vast majority of the energy we buy now comes from a renewable source and what we generate ourselves has continued to grow. This year we produced 58.8 GWhs (50.4 GWhs in 2012/13) of electricity from our combined heat and power (CHP) engines, which are powered by biogas from our water recycling process. What was considered a waste treatment problem has become a cost effective water recycling process. The wind turbine at our March Water Recycling Centre contributed an additional 5.3 GWhs (2.4 GWhs in 2012/13), and two further turbines at Newton Marsh Water Recycling Centre will shortly become operational.

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

We continue to use back-up power supplies to manage our demand from the National Grid and to reduce our energy costs. This year we again participated in the National Grid's Short Term Operating Reserve

service which generated an income and helped the National Grid manage the peaks on their network. We have also worked with Western Power Distribution (WPD) on their Project FALCON to explore how electricity customers can manage their demand so as to avoid the need for costly reinforcement of the electricity network.

One of the key messages to arise from our PR14 customer consultation was the need for our services to cope with the effects of disruptive events. To ensure our electricity supplies are as resilient as possible, we have worked closely with energy companies and through planning and exercising we have improved our response to power supply failures. We have also proposed significant investment in back-up power supplies at our biggest water treatment works.

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

Last year saw us change the name of our sewerage operation from Wastewater to Water Recycling, to better reflect what we do. Sewage is mostly water, but it is not wasted. The water is cleaned and returned to the environment, while sludge is used to generate energy, and is treated so that it can be used as a soil conditioner on farmland. Indeed, our whole operation can be seen as an extension of the natural water cycle.

We have developed and patented a new way to condition sewage sludge prior to treatment. Heating, Pasteurisation, Hydrolysis (HpH) results in the production of higher quality biosolids for use on farmland at the same time as generating 5% more methane gas, which is converted into electricity by our CHP engines. Four HpH plants are now being built and commissioned at Basildon, Ipswich, Grimsby and Colchester. It has saved us around £3 million in capital expenditure, compared to the cost of building other more conventional technologies. The increase in gas production will lead to further operational cost benefits of more than £0.4 million per year.

During the year we have also improved our ability to monitor how much we reuse and recycle within our business. The figures show we recycled 96% of waste across the business in 2013/14. Our focus is now on improving the confidence grade that we give to the data we are collecting to establish our recycling rates.

## **CARING FOR COMMUNITIES**

- More than 27,000 people reached through our education centres, in schools, and at community events
- Record visitor numbers at our water parks
- Working with others to tackle unemployment and deprivation in Fenland, Cambridgeshire

We believe investing in education and engagement is vital if we are to put water at the heart of a whole new way of thinking. So we've been working hard over the last year, showing people how they can make a difference in tackling important issues like climate change and population growth. In 2013/14, our

education programme reached more than 27,000 children and adults through our education centres, in schools, and at community events.

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

We are working as part of Business in the Community's Business Class programme to support young people facing social disadvantage. We have developed three-year partnerships with four schools around the region to help them address some of the aspiration and attainment challenges they face. Our work is based on the needs of the individual schools and has involved careers fairs, events to improve employability and training with the schools' senior management teams. Over the next year we will give pupils from the schools work experience, work with them as part of our Year of Innovation, and provide more careers support.

150 people from across the water industry and beyond attended our inaugural 'Water Summit'. This event was a showcase for our Water Resource Management Plan, and profiled our approach to long-term planning. We spoke about our move from Wastewater to Water Recycling, part of our approach to a better understanding and connection with the water cycle. Interactive workshops discussed issues such as risk, growth and the environment.

A two day Keep it Clear event in Peterborough in December 2013 thanked our customers for reducing blockages for a second year running and to continue raising awareness of how to safely dispose of fats, oils and greases over the Christmas period. We used 3D street art to help promote our messages. This has since been used successfully at Bedford College's Sustainability Day and Lincoln University.

HRH The Prince of Wales was among hundreds of people to visit our stand at the Business Design Centre in London as part of Business in the Community's 'The Big Connect' event. Prince Charles heard about the work we're doing in Fenland, Cambridgeshire – one of the most deprived areas in our region – with our @one Alliance partners, as part of Business in the Community's Business Connectors programme. This national programme looks to improve employability, job opportunities and enterprise, and support those who are not in education, employment or training (NEETS).

In April 2013 we also teamed up with our capital delivery partners to select a senior operations manager to work on our behalf in Fenland. We've been working closely with the Ferry Project, a homeless charity in Wisbech, which took on the lease of a disused school with the aim of turning it into a thriving community centre. Nearly 150 volunteers came together over two days to renovate the disused building including employees, Directors and Love Every Drop Champions from Anglian Water and the @one Alliance, people from the Ferry Project, community volunteers, and Fenland District Council. This was done as part of our

Love to Help volunteering scheme, which supports employees who want to make a positive difference to their communities and give time to causes that matter to them.

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

Our water parks and nature reserves play a hugely important role in helping us deliver for customers. They provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us meet our goal of making a positive difference to the communities we serve. The prestigious Green Flag – the national standard for park management – was awarded to Alton Water in 2013, and maintained by both Grafham and Rutland Water Parks.

After a dip during the exceptionally wet summer of 2012, visitor numbers to our Water Parks rose dramatically last year. We are able to measure the number of people using the car parks at a number of our sites. Last year this climbed to more than 800,000 – an all-time high. Adding an estimate of the numbers at other sites and those taking part in sporting events, fishing, sailing and trips to nature reserves, we believe more than two million people visited our parks in the last year. More than 600 competitions, charity and public events were held at our parks through 2013.

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

Over the next 12 months we will continue to develop our parks, with plans to open the UK's largest inland beach at Rutland Water.

For our business to flourish in the future, it is important we ensure there is a steady supply of young, talented people joining the company where they can learn from experienced colleagues as they progress. We currently have 20 people on our Graduate scheme, and 96 Apprentices working across our water and water recycling operations. A further 42 apprentices will join the business this coming year.

As part of our continued commitment to our employees' professional development we have worked with the Institute of Water and the Science Council to establish a new Chartered Scientist award (CSci) specific to the Water Industry. By the end of April 2014, 25 of our scientists had completed the award.

Throughout 2013/14 we have maintained our focus on health and safety as one area of our business where no compromise is acceptable. As driving, both for and outside of work, is the most dangerous activity for many of our employees, we rolled out a programme of driver risk assessments and seminars in 2013/14. We will complete this work over the next 12 months.

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

Although the last year saw a very slight increase in the accident rate and in the number of potentially serious incidents, our overall health and safety performance remains very strong, as shown by our RoSPA award. The number of days lost to sickness fell after a very slight rise last year. In 2013/14 the number of Category 1 incidents – those that are classified as very serious – was 11 (2012/13: 8, 2011/12: 9). None of these incidents resulted in a Category 1 injury. Our accident frequency rate remains very low at 0.21 accidents per 100,000 hours worked (2012/13: 0.16, 2011/12: 0.28), while our sick absence rate is at an all time low of 4.96 days per person per year (2012/13: 5.56, 2011/12: 5.10).

## **INVESTING FOR TOMORROW**

- Performance of our assets has remained solid this year
- One of the first companies in the world to achieve ISO 55001 accreditation for the quality of our asset management
- We remain the only water company to have been awarded the Carbon Trust's Water Standard
- Delivered consistently good performance at our water treatment works
- Completion of new, predictive model looking at effects of unusual weather on different pipe materials
- Proactive detection of burst mains at record levels

In the fourth year of the AMP5 period (2010–15), we continued to build on the solid performance achieved in AMP4 (2005–10), when Ofwat ranked us as leading in terms of capital efficiency in both water and sewerage sides of the business. We continue to invest heavily to increase the resilience of our services and protect customers' supplies. This has included work to improve our ability to move water around the region; protect our existing supplies through improved detection and repair of leaks; support growth in our region and work with developers.

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

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



The performance of our assets remained solid this year and improved in several critical areas. Where problems have arisen we have been quick to investigate and fix them, working hard to understand and solve any underlying issues. During the year, we became one of the first companies in the world to achieve the ISO 55001 accreditation, the new international standard for asset management. This standard is awarded to businesses that effectively and efficiently manage their approach to asset management; whether it's physical infrastructure, management processes, maintenance or planning.

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

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

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

Performance is also at target levels at our water recycling sites and we continue to invest in improvements at key sites. Nevertheless, the compliance of our water recycling centres was an area of focus and concern. High levels of sludge retained through the process caused the number of failing works to increase to 16 (2012/13: 14), although this still fell within acceptable reference levels. By collecting vital process data and analysing trends, we are able to build up a picture of how our works are performing and identify where we are carrying operational risk. Although the number of failing works was disappointing, the overall number of failing samples fell by 10%. We also saw a fall in the number of works with one or no failures left, which indicates our overall compliance risk is reducing.

We saw a significant improvement in the performance of our sewerage network with fewer flooding incidents, blockages and collapses. This is due to our programme of Planned Preventative Maintenance, the continued success of our Keep It Clear campaign and other initiatives, including the central monitoring of pollution incidents to ensure our response is timely and appropriate, and the use of a 'blue light response' to potential incidents where we know there is a higher than normal risk of flooding and pollution.

There was a significant increase in the number of Category 1 and 2 pollutions this year, with the number rising from three to nine. There was no individual reason for the rise, but rather a mixture of causes, including the weather and environmental sensitivity. While the number of incidents is not outside the normal range for us as a company, it is clear we need to continue to challenge and evolve our approach to operating the network to drive performance towards our goal of no pollutions.

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

With the next five-year period (AMP6) beginning in 2015, we have taken the opportunity to change the way we deliver our capital investment. We have put out to market our entire capital delivery programme, and all our contractors will be appointed on the basis that they are signing up to deliver the outcomes asked for by our customers. This includes reducing our carbon footprint by meeting our Love Every Drop goal to reduce embodied and operational carbon.

Most of our capital investment is currently delivered through six groups of framework agreements. In AMP6 this will be reduced to four new 'delivery vehicles'. In May 2014, we announced our partners for the first of these - Integrated Main Works Capital (IMWC) - which will cover all types of complex construction and refurbishment projects. Our IMWC partners are signing up to a Total Outperformance commercial model. This means they make their profits from innovating to outperform our business plan figures and becoming more efficient, rather than traditional fees on turnover. We believe this all adds up to an industry leading approach, and there have been several other innovations in our procurement process.

We have gone for a potential 15 year term – three AMP periods, the longest in the industry – to ensure real, long-term collaboration and unlock the most joint investment for tomorrow. Over half of the weighting during the recruitment process was given to the behaviour of staff from bidding companies, not just tendered prices. This was to make sure we got the right people as well as the right partners.

The last year saw significant flooding around the UK from rivers, sea and surface water. Such events are likely to become more common, threatening to disrupt our services. The Flood and Water Management Act places a duty on everyone with responsibility for tackling flood risk to co-operate and share information. As a result we are working with the 21 Lead Local Flood Authorities (LLFAs) in our region to plan for the future. This year we have helped with a large number of flooding strategies, plans, investigations and reports.

We have begun discussions with all LLFAs in our region, asking them to identify projects where they would be asking for contributions during AMP6. Where these projects also provide benefits for our customers, we have proposed partnership funding to support them within our next five year investment period. As a result we could help fund 53 projects at a cost of £8.4 million between 2015 and 2020.

We remain an industry leader on the adoption of sustainable drainage systems (SuDS) on new developments. These improve an area's natural ability to absorb surface water and reduce flood risk without expensive, carbon intensive engineering solutions. This helps to provide developers with security in a time of uncertainty and helps enable growth. We are also working with Defra and Water UK, playing an important role in shaping National Standards for Sustainable Drainage.

The challenges facing us are also driving innovation and transforming our business. We see Anglian Water becoming a hub of innovation in our region, creating wealth and jobs. Innovations have already reduced costs, environmental impacts and operational risk. It is anticipated our core innovation programme will deliver more than £20 million in benefits over AMP5 in capital and operational cost savings.

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

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

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

## **FAIR PROFITS**

- Adjusted profit after tax of £156.8 million
- Total direct and indirect tax contribution other than corporation tax of £167 million

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

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

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

Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund that investment. We have one of the largest levels of private capital investment in the region, worth over £2 billion between 2010 and 2015. This is central to underpinning economic recovery and growth of the regional economy. This investment defers some of our corporation tax liabilities until a later period, and is something the Government actively encourages. Customers also benefit from the deferral as it helps to keep bills lower.

We confirm that we comply with the recently published CBI Statement of Tax Principles, which aims to drive greater tax transparency in business and encourages companies to explain what they do in a

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

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

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

- Business rates of £58 million paid to local authorities. This is a direct cost to the company and reduces profit before tax
- Employment taxes of £33 million including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of £13 million were charged approximately 73% to operating costs, reducing profit before tax, with 27% capitalised to fixed assets
- VAT of £20 million collected and paid to HMRC. VAT has no material impact on profit before tax
- Abstraction licences and direct discharges of £18 million. This is a direct cost to the company and reduces profit before tax
- Fuel Excise Duty (FED) of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- Carbon Reduction Commitment (CRC) of £5 million was also charged to operating costs, reducing profit before tax

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

We also chose to hold the increase in bills in 2014/15 below the level allowed for by the regulatory settlement. This reduced the amount payable by customers by £10 million, which equates to a £4 saving on the average household bill.

## **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 stakeholder and customer support for our work programme drives innovation, collaboration, improved efficiency and excellent customer service.

We will also work with Ofwat to secure the best possible determination for our customers and for our business, in the context of the challenges that we and our region face.

**[ends]**

*Any forward-looking statements made in this document represent management's judgment as to what may occur in the future. However, the group's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors, including some which will be outside the control of the group. Such factors could cause the group's actual results for current and future periods to differ materially from those expressed in any forward-looking statements made in this document. Unless otherwise required by applicable law, accounting standards or regulation, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.*

**For more information contact:**

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Anglian Water Services  
Press Office (24hr): 0871 677 0123

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

Notes	<b>2014</b>	2013
	<b>£m</b>	£m
<b>Turnover</b>	<b>1,214.0</b>	1,163.0
Operating costs:		
- Operating costs before depreciation	<b>(451.2)</b>	(445.8)
- Depreciation net of amortisation of grants and contributions	<b>(271.8)</b>	(262.4)
<b>Total operating costs</b>	<b>(723.0)</b>	(708.2)
<b>Operating profit</b>	<b>491.0</b>	454.8
<b>Finance costs</b>		
2 Net interest payable	<b>(134.8)</b>	(148.7)
3 Other finance charges	<b>(3.8)</b>	(4.4)
<b>Profit on ordinary activities before taxation<sup>1</sup></b>	<b>352.4</b>	301.7
4 Tax on profit on ordinary activities	<b>(3.3)</b>	(5.9)
<b>Profit for the financial year</b>	<b>349.1</b>	295.8

<sup>1</sup> The statutory profit on ordinary activities before taxation of £352.4 million (2013: £301.7 million) includes £192.3 million (2013: £192.7 million) of interest received from Anglian Water Services Holdings Limited. The profit on ordinary activities before taxation, excluding the interest received from Anglian Water Services Holdings Limited is £160.1 million (2013: £109.0 million).

The results above arise from continuing operations.

The accompanying notes are an integral part of this consolidated financial information.

**Anglian Water Services Limited**  
**Group statement of total recognised gains and losses**  
**for the year ended 31 March**

	<b>2014</b>	2013
	<b>£m</b>	£m
<b>Profit for the financial year</b>	<b>349.1</b>	295.8
Actuarial gain/(loss) recognised on the pension schemes	<b>5.9</b>	(45.8)
Current tax relating to the actuarial loss on the pension schemes	-	5.2
Movement on deferred tax relating to the actuarial (gain)/loss on the pension schemes	<b>(1.3)</b>	5.8
Impact of change in tax rate on deferred tax on the pension schemes	<b>0.2</b>	(0.2)
<b>Total recognised gains and losses relating to the year</b>	<b>353.9</b>	260.8

The accompanying notes are an integral part of this consolidated financial information.

**Anglian Water Services Limited**  
**Group and company balance sheets**  
**at 31 March**

Notes	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Fixed assets</b>				
Tangible assets	<b>5,169.0</b>	5,034.1	<b>5,169.0</b>	5,034.1
Investments	<b>1,602.6</b>	1,602.6	<b>1,602.6</b>	1,602.6
	<b>6,771.6</b>	6,636.7	<b>6,771.6</b>	6,636.7
<b>Current assets</b>				
Stocks	<b>10.7</b>	10.0	<b>10.7</b>	10.0
Debtors	<b>498.6</b>	507.6	<b>498.5</b>	507.5
Investments - money market deposits	<b>67.9</b>	116.4	<b>67.9</b>	116.4
Cash at bank and in hand (including short-term deposits)	<b>619.5</b>	961.6	<b>618.3</b>	924.2
	<b>1,196.7</b>	1,595.6	<b>1,195.4</b>	1,558.1
<b>Creditors: amounts falling due within one year</b>				
Short-term borrowings	<b>(69.7)</b>	(649.3)	<b>(69.7)</b>	(649.3)
Other creditors	<b>(611.5)</b>	(657.9)	<b>(656.4)</b>	(666.1)
	<b>(681.2)</b>	(1,307.2)	<b>(726.1)</b>	(1,315.4)
<b>Net current assets</b>	<b>515.5</b>	288.4	<b>469.3</b>	242.7
<b>Total assets less current liabilities</b>	<b>7,287.1</b>	6,925.1	<b>7,240.9</b>	6,879.4
<b>Creditors: amounts falling due after more than one year</b>				
Loans and other borrowings	<b>(6,116.0)</b>	(5,690.3)	<b>(6,116.0)</b>	(5,690.3)
Other creditors	<b>(134.7)</b>	(135.2)	<b>(134.7)</b>	(135.2)
	<b>(6,250.7)</b>	(5,825.5)	<b>(6,250.7)</b>	(5,825.5)
<b>Provisions for liabilities</b>	<b>(36.6)</b>	(41.6)	<b>(36.6)</b>	(41.6)
<b>Net assets excluding pension liabilities</b>	<b>999.8</b>	1,058.0	<b>953.6</b>	1,012.3
<b>Defined benefit pension liabilities</b>	<b>(48.6)</b>	(66.3)	<b>(48.6)</b>	(66.3)
<b>Net assets including pension liabilities</b>	<b>951.2</b>	991.7	<b>905.0</b>	946.0
<b>Capital and reserves</b>				
6 Called-up share capital	<b>10.0</b>	10.0	<b>10.0</b>	10.0
6 Profit and loss account	<b>941.2</b>	981.7	<b>895.0</b>	936.0
<b>Total shareholder's funds</b>	<b>951.2</b>	991.7	<b>905.0</b>	946.0

The accompanying notes are an integral part of this consolidated financial information.



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

Notes	2014 £m	2013 £m
(a) <b>Net cash inflow from operating activities</b>	<b>726.1</b>	691.1
<b>Returns on investments and servicing of finance</b>		
Interest received	245.1	154.0
Interest paid	(229.6)	(232.3)
Issue costs of new debt issued	(3.5)	(5.2)
Interest element of finance lease rental payments	(2.0)	(2.5)
<b>Net cash inflow/(outflow) for returns on investments and servicing of finance</b>	<b>10.0</b>	(86.0)
<b>Taxation</b>		
Corporation tax received	-	2.1
Payments to other Anglian Water Group Limited group undertakings	-	(12.9)
<b>Net cash outflow for taxation</b>	<b>-</b>	(10.8)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(464.4)	(524.8)
Grants and contributions received	28.8	21.9
Disposal of tangible fixed assets	1.7	1.9
Repayment of intercompany loan	-	6.5
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(433.9)</b>	(494.5)
<b>Equity dividends paid to shareholders</b>	<b>(441.8)</b>	(310.3)
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(139.6)</b>	(210.5)
<b>Management of liquid resources</b>		
Decrease/(increase) in short-term deposits and investments	249.3	(299.8)
<b>Financing</b>		
Increase in amounts borrowed	403.8	844.0
Repayment of amounts borrowed	(650.8)	(249.8)
Capital element of finance lease rental payments	(4.0)	(3.5)
<b>Net cash (outflow)/inflow from financing</b>	<b>(251.0)</b>	590.7
<b>(Decrease)/increase in cash</b>	<b>(141.3)</b>	80.4

Note (a) forms part of this consolidated cash flow statement.

**Anglian Water Services Limited**  
**Notes to the group cash flow statement**  
**for the year ended 31 March**

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

	<b>2014</b>	2013
	<b>£m</b>	£m
Operating profit	<b>491.0</b>	454.8
Depreciation (net of amortisation of deferred grants and contributions)	<b>271.8</b>	262.4
Profit on sale of fixed assets	<b>(1.2)</b>	(1.4)
Difference between pension charge and cash contributions	<b>(23.7)</b>	(24.6)
Net movement in provisions	<b>(0.2)</b>	(0.2)
	<b>737.7</b>	691.0
Working capital:		
Increase in stocks	<b>(0.7)</b>	(0.8)
Increase in debtors	<b>(20.4)</b>	(88.9)
Increase in creditors	<b>9.5</b>	89.8
	<b>(11.6)</b>	0.1
<b>Net cash inflow from operating activities</b>	<b>726.1</b>	691.1

## Notes to the financial information

### 1 Accounting policies

The consolidated financial information for the group is for the year ended 31 March 2014 and has been prepared in accordance with UK GAAP and on the basis of accounting policies consistent with those used for the audited financial statements of Anglian Water Services Limited at 31 March 2014. The results have been extracted from the audited financial statements of the group for the year ended 31 March 2014.

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.

The financial information does not constitute statutory accounts of the group within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2014 will be filed with the Registrar of Companies and copies will be available from the Company's registered office at Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ. The auditors' report on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2013, which incorporated an unqualified auditors' report, have been filed with the Registrar of Companies.

### 2 Net interest payable

	2014 £m	2013 £m
Interest payable on other loans including financing expenses	232.1	235.5
Indexation	98.0	110.9
Finance leases	1.9	2.4
Interest receivable from Anglian Water Services Holdings Limited	(192.3)	(192.7)
Other interest receivable	(4.9)	(7.4)
<b>Net interest payable and similar items</b>	<b>134.8</b>	<b>148.7</b>

### 3 Other finance charges

	2014 £m	2013 £m
Unwinding of discount and change in discount rates on provisions	(0.4)	1.5
Defined benefit pension scheme interest charge	4.2	2.9
<b>Other finance charges</b>	<b>3.8</b>	<b>4.4</b>

## Notes to the financial information (continued)

### 4 Taxation

#### (a) Analysis of charge in the year

	2014	2013
	£m	£m
<b>Current tax:</b>		
UK corporation tax	24.5	32.1
Adjustment in respect of previous periods	(2.1)	(1.9)
<b>Total current tax charge</b>	<b>22.4</b>	<b>30.2</b>
<b>Deferred tax:</b>		
Charge for timing differences arising in year	16.4	(1.8)
Impact of discounting on deferred tax liability	(13.0)	(17.6)
Impact of (increase)/decrease in discount rates	(9.6)	7.3
Effect of reduction in corporation tax rate to 20% (2013: 23%)	(7.0)	(4.6)
Adjustments in respect of previous periods	(5.9)	(7.6)
<b>Total deferred tax credit</b>	<b>(19.1)</b>	<b>(24.3)</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>3.3</b>	<b>5.9</b>

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £9.6 million (2013: charge of £7.3 million) in the year. If all UK gilt rates moved by 0.25% a change in the tax charge of between £10.0 million to £15.0 million would occur.

During the year, as a result of the change in the UK corporation tax rate from 23% to 21% that is effective from 1 April 2014, and to 20% from 1 April 2015, all relevant deferred tax balances have been re-measured. The effect of this 3% (2013: 1%) reduction in corporate tax rates is a credit of £7.0 million (2013: £4.6 million) which consists of a gross credit of £68.8 million (2013: £22.4 million) offset by a discounting charge of £61.8 million (2013: £17.8 million).

The current tax adjustment in respect of previous periods relates to a credit for the agreement of prior year tax computations of £5.3 million (2013: credit of £0.4 million) and a credit to another group company for expected ACT utilisation of £2.3 million (2013: credit of £1.7 million) offset by a prior year capital allowances disclaimer charge of £5.5 million (2013: charge of £0.2 million). In both years, the deferred tax adjustments for prior years related to the agreement of prior year tax computations.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited amounting to £192.3 million (2013: £192.7 million).

In 2013, in addition to the current tax charge above, a £5.2 million credit for current tax was recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account.

Due to the availability of tax losses elsewhere in the Group, the company's liability for corporation tax is settled via payments to other Group companies for Group Relief.

## Notes to the financial information (continued)

### 4 Taxation (continued)

#### (b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	<b>2014</b>	2013
	<b>£m</b>	£m
Profit on ordinary activities before taxation	<b>352.4</b>	301.7
Tax on profit on ordinary activities at the standard rate of corporation tax in the UK of 23% (2013: 24%)	<b>81.1</b>	72.4
Effects of:		
Items not deductible for tax purposes	<b>0.4</b>	0.4
Items not taxable	<b>(0.3)</b>	(0.3)
Group relief utilised	<b>(44.2)</b>	(46.2)
Depreciation not eligible for tax purposes	<b>3.9</b>	4.0
Depreciation for the year (less than)/in excess of capital allowances	<b>(13.0)</b>	0.7
Short term timing differences	<b>(3.4)</b>	1.1
Adjustment in respect of previous periods	<b>(2.1)</b>	(1.9)
<b>Current tax charge for the year</b>	<b>22.4</b>	30.2

The group relief utilised relates to losses surrendered by Anglian Water Services Holdings Limited on a nil charge basis.

### 5 Dividends

	<b>2014</b>	2013
	<b>£m</b>	£m
Previous year final dividend	<b>95.0</b>	86.0
Current year interim dividend	<b>107.1</b>	78.5
Dividend paid by the company and retained within the Anglian Water Services Financing group	<b>191.8</b>	144.8
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	<b>0.5</b>	47.9
	<b>394.4</b>	357.2

The Directors have proposed a final dividend for the year ended 31 March 2014 of £11.10 per share, which is a total of £111.0 million. This distribution has not been accounted for within the 2014 financial statements as it was proposed and approved after the year end.

## Notes to the financial information (continued)

### 6 Movement in shareholder's funds Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2013	10.0	981.7	991.7
Total recognised gains and losses for the year	-	353.9	353.9
Dividends paid and committed	-	(394.4)	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>941.2</b>	<b>951.2</b>

### Company

	Share capital £m	Profit and loss account £m	Total £m
As at 1 April 2013	10.0	936.0	946.0
Profit for the financial year	-	348.6	348.6
Actuarial gain recognised on the pension schemes	-	5.9	5.9
Movement on deferred tax relating to the actuarial gain on the pension schemes	-	(1.3)	(1.3)
Impact of change in tax rate on deferred tax on pension schemes	-	0.2	0.2
Dividends paid and committed	-	(394.4)	(394.4)
<b>At 31 March 2014</b>	<b>10.0</b>	<b>895.0</b>	<b>905.0</b>