Osprey Acquisitions Limited
Annual report and consolidated financial statements
for the year ended 31 March 2015

Company number: 05915896

Directors' report

for the year ended 31 March 2015

The Directors present their report and the audited consolidated financial statements of Osprey Acquisitions Limited for the year ended 31 March 2015.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply and distribution, sewage collection and treatment, and property development. The information that fulfils the requirement of the strategic report, including the company's financial risk management objectives, is set out on pages 5 to 37.

Group results and returns to shareholders

The income statement on page 38 shows the group's results for the year. Dividends of £91.5 million (2014: £138.8 million) have been paid in the year. In addition a first interim dividend of £30.7 million in respect of the year ended 31 March 2015 was approved by the Board on 4 June 2015 and was paid on 10 June 2015. This dividend has not been included as a liability at 31 March 2015.

Directors

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

Stephen Billingham	(appointed 1 April 2015)
Sir Adrian Montague CBE	(resigned 22 January 2015)
Robert Napier	(appointed 22 January 2015, resigned 31 March 2015)
Scott Longhurst	
Peter Simpson	
André Bourbonnais	(resigned 13 February 2015)
James Bryce	(appointed 1 December 2014)
Andrew Cox	
Cressida Hogg CBE	(appointed 13 February 2015)
Werner Kerschl	
Dr Andreas Koettering	(resigned 1 December 2014)
Niall Mills	
Batiste Ogier	(appointed 21 July 2014)
Mark Rogers	
Christian Seymour	
Dr Timothy Stone CBE	(resigned 4 June 2015)
Philip White	

Claire Russell continued to serve as Company Secretary throughout the year.

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

Directors' indemnities

The company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006.

Shareholders

The sole shareholder of the company is Osprey Holdco Limited.

Charitable donations

We continue to provide support to WaterAid – our nominated charity (which transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities) – and do not offer charitable donations or sponsorships to other charities. Part of the funds raised in 2014/15 directly supported the work of WaterAid in two countries, Nepal and Liberia, where we are proud to have close links to the work of the local WaterAid teams. During the year, the group donated £40,000 to WaterAid. With the support of many employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £523,804 for WaterAid (2014: £506,763) – the highest amount ever raised by the business.

Political donations

No political donations were made during the year (2014: £nil).

Research and development

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

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. We produce a regular employee newspaper *Anglian Water News*, which is sent to employees at home. Phonecasts from senior managers, and the group's intranet are also widely used as sources of information.

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

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

To encourage employee participation in Anglian Water Group's performance, the group operates the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

Statement of Directors' responsibilities

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

Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors section on page 1 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group and the company; and
- the directors' report and strategic report contained in the Annual Report include a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditors

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

a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and in the absence of a notice proposing that the appointment be terminated, the auditors will be deemed to be re-appointed for the next financial year.

Going concern

The directors believe, after due and careful enquiry, that the group and company have sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2015 financial statements.

Claire Russell
Company Secretary
17 July 2015

Registered Office: Lancaster House, Lancaster Way,
Ermine Business Park, Huntingdon, Cambridgeshire PE29 6YJ

Registered in England and Wales No. 05915896

Group strategy and financial performance
The group's principal business is Anglian Water, the group's regulated water and sewerage company, which supplies water and water recycling services to over six million domestic and business customers in the east of England and Hartlepool. The group also includes AWG Property, a specialist property development company.

The following pages set out a strategic report for each of the main reporting segments of the group at 31 March 2015.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 36.

The results for the group for the year to 31 March 2015 show a profit before exceptional items, fair value gains/(losses) and tax of £132.1 million (2014: £129.6 million) and revenue of £1,254.4 million (2014: £1,222.6 million). The group has net debt at 31 March 2015 of £7,762.5 million (2014: £7,397.3 million). Net cash inflow from operating activities for the year was £690.4 million (2014: £669.3 million).

Dividends
Dividends of £91.5 million (2014: £138.8 million) have been paid in the year.

ANGLIAN WATER

Business overview

Anglian Water Services Limited (Anglian Water) is the largest water and sewerage company in England and Wales by geographic area.

Anglian Water provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. Anglian Water receives approximately 908 million litres of used water per day from 2.6 million homes and businesses, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

We aim to be the leading customer service business in the UK. We base our approach on customers' expectations that we provide the vital services that help the economy, environment and communities to thrive.

What we do

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

Our raw material is the water we ***collect*** from rivers and underground aquifers and store in our reservoirs. We invest in efficient, low carbon assets and processes – this reduces our carbon footprint and our costs.

We treat that water and ***supply*** it to homes, businesses and industry. We help and encourage our customers to use less water, which leaves more in the environment and delays the need to build costly new resources.

It then comes back to us through our sewerage network before we ***treat*** and return it to the rivers and sea. The sewage arriving at our Water Recycling Centres is turned into renewable energy and biosolids for agriculture, helping address society's growing demand for food and power as well as water.

In this way and starting with the most basic and vital of natural resources, our business underpins the health and wellbeing of our customers, supports growth and prosperity in our region and helps future-proof it against the challenges of climate change and a growing population.

What we want to achieve

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

Your service:

- Satisfied customers – Ensuring that customers are very satisfied with their service.
- Fair charges – Bills balance fairness, affordability and value for money.
- Safe, clean water – Drinking water is safe, clean and acceptable.
- Resilient services – Our services cope with the effect of disruptive events, in particular increasingly severe weather events.

Our world:

- Supply meets demand – Manage and meet the growth in demand for sustainable and reliable water and water recycling services.
- Flourishing environment – A flourishing environment, for nature and for everyone.
- A smaller footprint – Leading by example on reducing emissions and conserving the world's natural resources.
- Caring for communities – Working responsibly with and for your community.

Getting it right for you:

- Investing for tomorrow – Provide the services our customers expect over the long-term through responsible asset stewardship.
- Fair profits – A financially responsible, efficient business earning fair profits.

ANGLIAN WATER

<u>How we add value</u>
Our sustainable business model is structured to create long-term value for our customers, shareholders and the environment.

Our key ***resources***:

- Our people – Our employees, suppliers and their 'know-how'.
- Financial – Capital, revenue and profits invested in our business.
- Raw water – Taken from rivers and aquifers for treatment and supply.
- Used water - Collected, treated and returned to the water cycle.
- Our land – Needed to collect, treat and return water to the environment, but also rich in wildlife and recreational opportunities.

How we ***add value***:

- Our love every drop culture – Embedding sustainability at the core of our business.
- Collaborations – With suppliers, academics, the public and private sectors to deliver transformational change.
- Innovation and thought leadership – From low carbon technology to behavioural change.
- Strategic future planning – Scenario planning, climate and growth projections, customer insight.
- Building and managing assets - That are efficient, reliable and resilient.

What we ***create***:

- Energy – From combined heat and power generators and from wind turbines.
- Drinking water – Safe, clean water – at your tap, when you need it.
- Water for industry – Everything needs water, from food processing to heavy manufacturing.
- Skills, jobs and growth – We invest in our employees, work with schools and enable growth in our region.
- Recycled water for the environment – Highly treated used water is put back into the environment.
- Biosolids - We create a quality soil improver that supports agricultural production.

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

Our approach is that in any business situation we can ***innovate*** and ***collaborate*** to ***transform*** the end result.

<u>How we understand what matters</u>
Anglian Water has established a Customer Engagement Forum to ensure we continue to focus most on the issues that matter to our customers.

Our forum consists of:

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

Our engagement consists of:

The independent Customer Engagement Forum (CEF) was established to represent the interests of customers, communities, the economy and the environment in the development of the 2015–20 Business Plan. It has advised and challenged us at every stage and endorsed the final submission to Ofwat. The

ANGLIAN WATER

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

Key findings[1]

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

- Ensuring that there are no knock-on consequences from the investment, price and financing proposals in the current plans that would cause bills to rise sharply in 2021. However, there is provision in the plan to ensure that essential services and resources are adequately maintained for future customers.
- Ensuring that there would be no constraints on housing, business or other economic growth from limitations in Anglian Water capacity and capability in differing growth scenarios.
- Ensuring that the long-term environmental needs of the region are met.
- Continuing to support customers and communities, including the most vulnerable.
- Responding to the desire for low bills for household customers.
- Addressing the specific needs of Hartlepool Water customers.

What affects us

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

What regulation means for us:

Ofwat is our economic regulator. It determines the price we set for our customer bills and we have worked closely with Ofwat in producing our Business Plan for 2015–20. In December, its Final Determination agreed with almost everything proposed, allowing us to deliver on the priorities agreed with our customers.

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

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

What competition in the water industry means for us:

The Water Act extends competition in the non-household retail market. From 1 April 2017, all non-household customers will be able to choose their water and/or water recycling retailer. In order to deliver an effective market, Defra and Ofwat have created the Open Water Programme. By bringing together experienced water industry representatives and through a number of consultations, the Programme aims to create the industry systems and codes required for a fully functioning, competitive market. Anglian Water is represented on a number of working groups, including the High Level Group which is providing the direction for the Programme. We have established our own Market Reform Programme, and this year saw our retail arm, Anglian Water Business (AWB), move into their own office with separate IT and telephony systems. Anglian Water has also formed a new business unit, Wholesale Services, which will be the single point of contact for AWB and other retailers operating in our region.

Managing population growth and increased demand:

We supply approximately two million households, an increase of 26% since the water industry was privatised in 1989. Despite this, the total amount of water we supply each day is now slightly less. This is due in large part to long-term reductions in leakage, to the increasing proportion of customers on a water meter and our installation of water efficiency devices in people's homes. Our region's population may increase by as much as one million by 2040, increasing demand by 13%. Reducing leakage and using water more efficiently are things that customers expect us to do to maintain the future balance between supply and demand, and we will continue to focus on these areas over the next five years.

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[1] Report by the Chair and members on the PR14 business planning processes and final business plan submission of Anglian Water Services Limited (December 2013).

ANGLIAN WATER

Managing the effects of climate change:

The Anglian region is the driest in the UK, with average annual rainfall approximately 71% of the long-term average for England. Climate change threatens to reduce that further, while rising sea levels could threaten coastal sites. In response, we continue to invest in new water resources and to improve the efficiency and connectivity of our network. We are also investing in flood defences at vulnerable sites and working to reduce our own impact on climate change through reducing our carbon footprint and increasing the amount of renewable energy generated on our sites.

Our strategy

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

We called this new strategy Love Every Drop.

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

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

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

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

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

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

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

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

But we will do so much more.

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

ANGLIAN WATER

<u>How we are structured</u>

Our corporate structure

AWG Investors

▼

Anglian Water Group Limited

▼

Osprey Holdco Limited

▼

Osprey Acquisitions Limited

▼

AWG Parent Co Limited

▼

AWG Holdings Limited

▼

AWG (UK) Holdings Limited

▼

AWG Group Limited

▼

Anglian Water Services Holdings Limited

▼

Anglian Water Services Overseas Holdings Limited

▼

Anglian Water Services Limited [1]

▼

Anglian Water Services Financing Plc [1]

Anglian Water Services Financing Group (AWSFG)

▼ Direct subsidiary

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

When AWG was acquired by the AWG investors in 2006 (see note 31 'Ultimate parent undertaking and controlling party'), Anglian Water Group Limited became the ultimate parent company of the group. It is a Jersey registered company, but it is UK tax resident and, as such, is liable for tax in the UK. Osprey Holdco Limited has issued debt which is held by our shareholders in proportion to their respective shareholdings, and they receive an interest payment on the debt annually. Osprey Acquisitions Limited has borrowed money from banks and the capital markets (bonds) for use within the group.

AWG Parent Co Limited, AWG Holdings Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. They are all 100% owned, and currently none of these companies has any external debt.

Three of the companies are UK registered and tax resident. AWG Holdings Limited is Jersey registered and Irish tax resident.

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

Anglian Water Services Overseas Holdings Limited is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. It was set up as a Cayman Islands registered company to facilitate the ring-fenced structure in 2002, but subsequent changes to UK legislation mean we wouldn't need to set up an overseas company if we were to do the same again. Despite being registered overseas, this company is UK tax resident, and therefore does not (and never has) benefited from any tax advantage. The company is no longer needed in the group structure, but the administrative cost of removing it would be significant.

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

ANGLIAN WATER

Who leads us

The Anglian Water Services Limited Board of Directors consists of:

Four Executive Directors: Peter Simpson, Scott Longhurst, Chris Newsome and Jean Spencer.

Eight Independent Non-Executive Directors: Stephen Billingham (Chairman of the Board), Polly Courtice LVO, Christopher Garnett OBE (Senior Independent Non-Executive Director), Steve Good, John Hirst CBE, Robert Napier CBE, John Watkinson and Paul Whittaker.

Four Non-Executive Directors: James Bryce, Andrew Cox, Niall Mills and Christian Seymour.

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

Key performance indicators

Operational			
Drinking water quality (1)	Our overall mean zonal compliance performance in the calendar year against the required standards. **How this KPI relates to our strategy** A resilient and secure supply of safe drinking water is a top priority.	2014 2013 2012 2011 2010 2009	99.95% 99.96% 99.96% 99.96% 99.96% 99.96%
Leakage (2)	Cubic metres of water lost per kilometre of main per day. **How this KPI relates to our strategy** Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.	m3/km/day 2014/15 2013/14 2012/13 2011/12 2010/11 2009/10	 5.04 5.06 4.97 5.26 6.10 5.62
Service incentive mechanism (SIM)	A comparative measure of customer service introduced by Ofwat in 2010/11. It is made up of qualitative customer satisfaction and quantitative customer contact elements. **How this KPI relates to our strategy** Excellence in customer service is at the heart of everything we do. The SIM helps us understand how to continually improve our service.	Combined score 2014/15 2013/14 2012/13 2011/12	 85 87 85 79
Environmental			
Carbon footprint	CO_2 emissions equivalent in tonnes CO_2e. **How this KPI relates to our strategy** This key measure helps us: • Manage our environmental impact. • Deliver cost savings.	Gross tonnes CO_2e 2014/15 2013/14 2012/13 2011/12 2010/11	 455,335 442,470 469,551 462,549 489,437

(1) Drinking water results published in 2014 for the calendar year, measured as 'mean zonal compliance' with the regulatory quality standards.

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

ANGLIAN WATER

Key performance indicators (continued)

Financial		
Capital expenditure (3, 4)	Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation, and on a UK GAAP basis to be consistent with the Final Determination. **How this KPI relates to our strategy** Total investment delivered in this five-year asset management period.	Five years to 31 March 2015 (£m) Actual 2,121 Determination 2,457
Operating expenditure (5)	Operating costs (excluding depreciation and exceptional operating costs) incurred during the year, and on a UK GAAP basis to be consistent with the Final Determination. **How this KPI relates to our strategy** The cost of running Anglian Water operations and achieving our objectives.	£m Determination 2014/15 465.0 Actual 2014/15 479.3 2013/14 451.2 2012/13 445.8 2011/12 433.0 2010/11 396.5 2009/10 386.1
Employees		
Accident frequency rate	Number of accidents per 100,000 hours worked. Data includes both direct employees and key contractors. **How this KPI relates to our strategy** Indicates how safely we work.	Accidents per 100,000 hours worked 2014/15 0.16 2013/14 0.21 2012/13 0.16 2011/12 0.28 2010/11 0.31 2009/10 0.37
Accident severity rate	The number of Category 1 accidents/incidents expressed as a percentage of all accidents/ incidents. **How this KPI relates to our strategy** Measures severity of accidents/incidents.	2014/15 0.1% 2013/14 0.2% 2012/13 0.2% 2011/12 0.3% 2010/11 1.1% 2009/10 3.4%

(3) Final Determination capital expenditure on a gross, Pre-capital Incentive Scheme adjustment basis, in 2014/15 prices. Adjusted to include non-appointed capital expenditure.
(4) Actual expenditure excludes £57 million of AMP6 transition spend.
(5) For the appointed and non-appointed businesses. Final Determination adjusted to 2014/15 prices and for non-appointed business and pension deficit payments to ensure consistency.

ANGLIAN WATER

Performance review

The year in context

The year to the end of March 2015 has been dominated by the conclusion of AMP5, 2010-2015, and the transition to AMP6, 2015-2020. The completion of a £2.1 billion programme of investment including £438.7 million[2] in 2014/15 (2013/14: £424.3 million), with 100% of regulatory obligations delivered, and the creation of four new 15-year alliances to deliver our capital and maintenance programmes, has set us up to deliver on the promises we made to our customers during the largest consultation we have ever undertaken.

In preparation for AMP6 we consulted around 50,000 customers, to ensure that their priorities are at the heart of our business plan for 2015-2020. This plan was agreed with Ofwat in January 2015.

Our plan promises the largest percentage drop in prices of any of the water and sewerage companies; investment of £5 billion in running the business, looking after essential equipment, protecting communities from drought, flooding, and a changing climate; a £60 million investment programme to tackle leaks; to fit meters to 95% of the properties we serve by 2020 (currently 88%); and more support for those customers who struggle to pay.

In 2014/15, we maintained our leading customer service position, achieving an upper quartile position based on the customer service survey methodology used by Ofwat in AMP5. Our target remains to have 100% of our customers very satisfied with the service we provide, and initiatives such as an expanded social customer service team, improvements to our e-billing platform and our website, and a new customer relationship management platform are helping us achieve this.

Our water recycling teams have delivered outstanding compliance results at our treatment works, with the lowest number of non-compliant works since 2007. This is despite a far higher number of consents being introduced. We achieved a 3* rating in the Environment Agency’s annual assessment, and we are assessed as stable in both the wastewater infrastructure and non-infrastructure serviceability measures.

We continue to lead the industry in levels of leakage, and have delivered a consistently good performance throughout the year at our water treatment works, and on our wider network. We have seen a significant reduction in water quality complaints, and have recorded stable serviceability across both the water infrastructure and non-infrastructure measures.

Our Health and Safety performance remains industry leading. We have achieved our lowest ever accident frequency rate (0.16 2014/15, 0.21 2013/14), along with a significant reduction in time lost to sickness absence across the business (4.79 days per employee). Near-miss reporting has increased dramatically, up from 4,509 (2013/14) to 7,082 (2014/15). This is indicative of our cultural approach to Health and Safety, placing it at the core of everything we do, and encouraging our employees to maintain constant vigilance and report potential unsafe situations to enable continuous improvement.

Finally, we concluded the year by celebrating a Queen’s Award for Enterprise for Sustainable Development. The award is in recognition of the significant contribution Anglian Water has made in setting new national standards for sustainability, and for embedding sustainability throughout our operations. It follows the five-year development of our Love Every Drop strategy, which underpins our commitment to sustainability and includes the whole business, from the water we supply to the recycling of used water before it’s returned to the environment.

Below, we have reported against each of the ten outcomes (grouped into three broad headings: ‘Your Service’, ‘Our World’ and ‘Getting It Right For You’) that we have agreed with our customers, and which we believe deliver excellent customer service, affordable bills, and a water company that is fit to face the challenges of the 21st century.

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[2] Stated on a UK GAAP basis to be consistent with Final Determination against which our programme delivery is measured.

ANGLIAN WATER

Your service

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

Satisfied customers

- Introduction of our 1Customer IT system to improve speed and efficiency of customer service.
- Creation of a new social customer service team.

Although there have been no formal, comparative SIM surveys conducted by Ofwat this year, we have continued to use our own SIM-tracker survey to monitor and improve performance. While it is not possible to compare our performance with other companies within the year, our score of 85 (87 in 2013/14) shows consistent performance against our ambition for 100% of our customers to be very happy with the service they get from us.

Our own Voice of the Customer team also speaks to customers every week to see how satisfied they are with how we resolved their issue. Results from this survey have been good, with more than 96% saying they were satisfied, or better, with the service they received.

The way SIM scores are calculated will change in 2015/16. We have participated in a number of trials this year to shape the programme, and we will now update our own tracking to mirror the new system. We will continue to innovate in customer service to retain our leading position.

This year saw the introduction of our innovative 1Customer IT system. This collates all customer data in one place, ensuring a contact centre agent has access to everything they need to improve the resolution of queries on the first occasion a customer calls us. As a result, processes that used to take minutes now take seconds, and training time for agents has also been reduced.

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

We have therefore extended our existing social media management with the creation of a new digital customer service team who will further improve the way we interact and communicate, bringing all of our social media touchpoints together. This will ensure consistently great service is delivered across all channels.

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

Fair charges

- Reduced our average annual bill by 7% in real terms.
- Launched a new social tariff, LITE, to help customers on low incomes.
- Exceeded our AMP5 targets for installation of water meters and water-saving devices.

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

This means that in 2015/16, the average household customer bill will fall by around 7% in real terms – the largest percentage drop of any water and sewerage company. The average annual bill will reduce to £402 per year, or £1.10 per day. Customers with a water meter will pay even less, with the average bill dropping to £371.

ANGLIAN WATER

We continue to offer a comprehensive package of measures to help customers manage their water use, and their bill. This includes a series of payment options, providing metering and water efficiency advice and different tariff options to help certain customer groups.

In creating our Business Plan for 2015-2020, we consulted with customers on our proposal for a new social tariff. This got strong support in the Anglian region and launched there on 1 April 2015. It did not receive sufficient support from customers in the Hartlepool Water area and will not be introduced there.

We expect the scheme, called LITE (Low Income Tariff for Eligible Households), will help approximately 9,000 customers. Customers pay an extra £1 a year, creating a fund used to reduce the bills of those eligible for help. Applicants are assessed in partnership with Citizens Advice, who look at people's water and sewerage charges as a proportion of their disposable income. Promotion of the tariff is now underway.

We provide direct tariff support to a further 55,000 customers through the Government's WaterSure scheme, and our own AquaCare Plus tariff. This is in addition to our Assistance Fund, which helps customers who have historic debt get back on track. The fund was increased to £1 million from 1 April 2015.

More than 16,000 customers chose to have a meter fitted in in 2014/15, and we also fitted another 5,500 under our enhanced metering programme. This is where we install meters at customers' properties, provide advice on potential savings and leave it for them to decide whether to switch. We replaced 121,000 meters this year to make sure customers continued to get fair and accurate bills. 88% of Anglian Water customers now have a meter fitted, and 78% are now billed according to the consumption recorded by that meter.

We already have the highest level of metered customers among the major water and sewerage companies in the UK, with almost 80% paying a metered bill. Nevertheless, we plan to increase this number even further in AMP6, with plans to install a further 86,000 meters by 2020. In addition, we forecast another 74,000 customers will choose to have a meter fitted.

Our aim in AMP5, 2010-2015, was to complete the largest water efficiency programme ever attempted, installing 183,000 enhanced meters, offer water efficiency audits and install water-saving products for 87,500 customers. Both of these programmes exceeded their targets by the end of March 2015.

In addition to carrying out more than 87,500 home water audits during AMP5, we have been offering and installing water-saving devices as part of our Bits and Bobs campaign. This helps customers save water, and the energy needed to heat it. This service is very popular with customers, with 90% of those surveyed saying they were very satisfied with their experience.

We are now introducing a new type of visit, providing a water consumption audit, advice and the installation of free water-saving products to customers who ask for a water meter. We aim to carry out around 50,000 of these during AMP6.

Our award-winning gardening club, The Potting Shed, has continued to be very popular with customers. To date we have distributed around 30,000 free water-saving Garden Kits.

Safe, clean water

- Met AMP5 target for lead pipe replacement.
- Employed a team of Catchment Advisors to work with landowners and help reduce pollution in raw water.
- Extended our Keep Water Healthy campaign to small businesses to improve public awareness of things that can affect drinking water quality including water fittings issues.

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

We have maintained the excellent quality of the water leaving our treatment works (known as the Disinfection Control Index) at 99.99%, and the measure relating to maintenance of our networks (known as the Distribution Maintenance Index) at 99.94%. This year our water quality compliance saw a slight fall to 99.95% (99.96% 2013/14). This was due in large part to the impact of a stricter EU standard on the levels of lead allowed in drinking water.

ANGLIAN WATER

In December 2013 this fell by more than half, from 25 µg/l (microgrammes per litre, or parts per billion) down to 10 µg/l, which made it more challenging to reduce risk of lead failures. Ahead of this change, we began a programme of lead pipe replacement. During AMP5, we exceeded our target to replace 11,299 lead pipes in high priority areas, including Peterborough, Northampton, Ipswich, Kettering and Bedford. A continued partnership with the NHS also helped us reach vulnerable customers with advice about reducing the risks from lead in drinking water. In 2014/15 alone we carried out 670 free lead tests for customers.

We are continuing to work hard to help customers maintain high quality water when it enters their own, private pipework, through our Keep Water Healthy campaign which launched in 2013. This was extended during the year to target small businesses such as dentists, cafes and offices. This campaign has contributed to an overall reduction in the number of customers who have contacted us regarding water quality in 2014/15.

For the third year running we have seconded scientists to the Drinking Water Inspectorate (DWI). Those chosen spend six months as DWI inspectors in a groundbreaking initiative, which brings us knowledge and new thinking to help maintain the highest standards in water quality. This is an on-going program, which is leading the way for the rest of the industry, where others are now also seeing the benefit of these secondments. It provides us with valuable insight and supports the work of the DWI.

This scheme takes place alongside our ongoing commitment to professional standards, driving continuous improvement through professional recognition of our scientists. We have achieved this through our links with the Institute of Water, with Chartered Scientist, Registered Scientists and Registered Technicians awards.

This year saw work completed on a new, state-of-the-art water treatment works near Lincoln. The newly built Hall Water Treatment Works takes water from the River Trent to supply the growing city of Lincoln.

We appointed a team of Catchment Advisors during 2014/15, who will work through AMP6 from the catchment to the coast. A particular focus will be developing our relationship with the region's farmers and landowners, and working closely with them to improve the water quality in our rivers, as well as collaborating with coastal businesses and communities to tackle marine pollution.

We remain focused on minimising the impact of metaldehyde – the most common pesticide for the control of slugs – on our operations. Between October and December, high levels of metaldehyde in the region's rivers forced us to stop abstracting water at ten locations, to prevent it reaching treatment works. While this tactic successfully protected water quality, it is not sustainable as we must abstract during these wetter months to maintain reservoir levels and reliable supplies of drinking water. During AMP5 we have modelled those areas where metaldehyde use is most likely to affect water quality in our reservoirs, and our new team of Catchment Advisors will help us work with farmers and agronomists in these areas to deliver our Catchment Management Strategy.

Resilient services

- Leakage down to at 192 Ml/day, well below our regulatory target of 211 Ml/day.
- Started the roll out of our new telemetry system.
- A 40% drop in crime at our sites.

In 2011 we published our first Adaptation Report, which informed the creation of our Climate Change Adaptation Plan in 2013. This year we have continued to deliver this plan, further embedding adaptation into decision making, carrying out targeted research and extensive engagement on flooding. Publication of our second adaptation report is due in May 2015.

We continue to collaborate with others to make sure we are prepared for the impact of extreme natural and man-made hazards. We sit on 13 Local Resilience Forums (LRFs) and the Multi Agency Support Group for the East of England, which brings together organisations with a role to play in helping the region to cope in times of emergency. This year we have trained 324 people in incident roles and carried out 34 exercises to ensure our employees are prepared for any eventuality. Anglian Water remains the only water company to be certified to ISO 22301 (Business Continuity Management).

ANGLIAN WATER

We have now completed our AMP5 programme of capital projects to improve security and ensure compliance with the Water UK Standards for Operational Assets. In addition we have continued to drive anti-theft measures across the business. Having appointed a Theft Reduction Manager in 2013, we have now put in place a number of new security measures at water and water recycling sites. These include CCTV, motion sensors, signs and barriers. Covert operations have also been used to reduce diesel theft. All this has resulted in a 40% drop in crime at our sites since the Theft Reduction Manager was appointed.

We are committed to driving down leakage rates. Since the drought of 2010–12, we have been working to bring leakage below the target set by our regulators. In 2012/13 we had the lowest level of leakage in our history – 189 Ml/d compared to our regulatory target of 211 Ml/d. This year we achieved our second ever lowest level of leakage, of 192 Ml/day. This is despite an increase in bursts over the winter, and is hugely important as we start the new AMP and begin the most ambitious and challenging leakage reduction initiative in the industry.

We continue to operate a rapid response to leak repairs but hitting our AMP6 target demands an increasingly proactive approach: we need to stop bursts and leaks from happening in the first place. Our current proactive leakage process lets us spot and respond to 27% of leaks proactively, before customers are even aware of them. Our continuing Optimised Water Networks strategy (OWN) takes that further, preventing bursts through better management of pressure in our network. OWN schemes delivered in AMP5 continue to bring benefits, with a 32% reduction in burst mains, and a drop in the water lost through leakage of 36%, or 8.57 megalitres a day. Due to this success, £1.6 million of investment planned for AMP6 was brought forward and delivered in 2014/15.

Alongside this work our new Integrated Leakage and Pressure Management system (ILPM) will be in the final stages of rollout in summer 2015. ILPM brings information about the network together in one place and in real time, making it easier to detect and control leakage. Enhancements planned for autumn 2015 will improve our ability to target work at areas of the network with rising leakage.

The upgrade and replacement of our telemetry network has continued during 2014/15. This is a hugely complex and sensitive task, gradually swapping our standalone telemetry system for one much more closely integrated with other business systems. After five years' work, the first parts of the old system were switched to the new, bespoke platform in November. The transfer has continued in stages, with around 58% now complete. Eventually the new system will comprise of more than half a million monitoring points and 35,000 telemetry pictures. The benefits are already being seen, with more effective, risk-based, intelligent alarms and new performance reports.

Our Keep it Clear campaign continues to deliver very impressive results, five years after it was launched. On average, blockages have reduced by 52% in areas where campaigns have been running for more than a year. Partnerships with Sainsbury's and Waitrose supported our community engagement work in 2014/15, alongside taking the campaign into schools with a series of special assemblies, and the production of a short film targeted at young people. The campaign won Business in the Community's Engaging Customers on Sustainability Award in July 2014, beating Thames Water and Waitrose in the final.

Our world

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

Supply meets demand

- Publication of our Water Resources Management Plan and our updated Drought Plan.
- Completed our programme of work for AMP5 with new sources of supply in Norfolk and Lincolnshire.

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

ANGLIAN WATER

Our programme of work for AMP5 is now complete. This included a large number of demand management initiatives, several new sources of supply and several transfers from areas of surplus to areas of deficit. Investigations were also carried out into any possible impact of our operations on the environment, in particular our abstraction of water from rivers and aquifers to supply homes and businesses. We also invested to increase the resilience of our supply system, both to drought and the effect of catastrophic water treatment works failure.

During 2014/15 we completed work on a new, more sustainable source of water supply for Sheringham (Norfolk), complementing other work completed during the AMP at Ludham (Norfolk). We have also introduced dual sources of water supply for customers in Boston (Lincolnshire). We increased the capacity of our Cambridge, Bedford and Uttons Drove Water Recycling Centres (Cambridgeshire), and completed work on the new Kettering trunk sewer.

We also completed work on two schemes initially commissioned in response to the drought of three years ago, which followed two dry winters. The schemes are designed to help mitigate the impact of three dry winters in succession. Two new, groundwater-fed treatment works at Pulloxhill in Bedfordshire and Postwick near Norwich are now able to supply water to the surrounding areas. The £8.7 million scheme at Pulloxhill can supply up to 6Ml/d, while the £13.4 million scheme at Postwick is capable of supplying more than 7Ml/d.

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

The trend for growth in the region is expected to continue, the pace of which will be in line with the strength of the growing economy. Work is due to start shortly on several large, complex developments, and to make sure we can meet future demand we work closely with Local Planning Authorities, developers, the Environment Agency and others. This year we have seen a 40% increase in developers requesting planning advice using our voluntary pre-planning capacity service. This service helps developers to make good planning applications, setting out how they can connect to our network without increasing the risk of sewer flooding, pollution and low water pressure.

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

A flourishing environment

- 99.9% of our SSSIs are in ‘favourable’ or ‘recovering’ condition.
- Entered a new partnership with Norfolk Wildlife Trust to manage Dereham Rush Meadows, a nationally important wetland.
- All 48 of the region’s bathing waters have met European standards for the 13th year running.
- Appointed a dedicated Coastal Catchment Management Team.

We own and manage a great deal of land across the region, much of it of value to wildlife. This includes 47 Sites of Special Scientific Interest (SSSI), covering nearly 3,000 hectares. Of these, 99.9% are judged to be in ‘favourable’ or ‘recovering’ condition. Good management means 49% are now ‘favourable’ compared to a national average of 37%.

We have longstanding partnerships with local Wildlife Trusts to manage our most important places for wildlife. One of these, Rutland Water, was voted Britain’s favourite nature reserve in a poll by LandLove magazine. Its popularity underlines the successful 40-year partnership we have with the Leicestershire and Rutland Wildlife Trust and is recognition of the tireless work undertaken by its volunteers. In July 2014, Their Royal Highnesses - the Prince of Wales and the Duchess of Cornwall visited Rutland Water to help celebrate the success of this partnership, and see the work we do in partnership to support wildlife conservation.

ANGLIAN WATER

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

Away from our own sites, we have been long-term supporters of the Lincolnshire Chalk Streams Project. In 2014/15 our financial support enabled the project to secure £214,000 worth of funding to enhance chalk streams across the county. Our RiverCare project, managed in partnership with Keep Britain Tidy, supports volunteers to care for their local stretch of river. In September, RiverCare marked World Rivers Day, with 1.5 tonnes of litter collected by volunteers across the region.

We also produced a plan for biodiversity in and around our sites in Hartlepool in 2014/15. It describes the important species and habitats we can protect by doing work on our own sites or by working with community groups.

For the 13th year in a row, all 48 of the region's bathing waters met the standards set out in the European Bathing Water Directive, with the majority (43) meeting the higher 'guideline' classification needed to apply for Blue Flag status in 2015. Coastal resorts are an important part of our region's economy, with around 29,000 jobs linked to seaside tourism.

This performance is one of the best we have seen to date, with 89% of bathing waters achieving the highest standards in summer 2014 (2013, 83%). Changes to the Bathing Water Directive mean that standards will be even tougher in future years, though. We are responding to this to make sure the water quality at our beaches remains among the best in the UK. Alongside a continued programme of targeted investment at our coastal sites and a strong focus on our day-to-day operational activities, we are increasing our emphasis on the impact of diffuse pollution at our bathing and shellfish waters. To investigate further, we have appointed a dedicated Coastal Catchment Management Team. They will work with local authorities, coastal businesses, tourists, homeowners and the Environment Agency, to investigate and identify sources of diffuse pollution. By collaborating in this way we aim to find sources of pollution that could affect our beaches and shellfish waters, and help to put solutions in place.

This year we became the first water company to bring in aerial survey experts to search for signs of pollution. Independent environmental consultants, APEM, flew the entire 777 miles of the region's coastline capturing high-resolution images of possible sources of pollution, including livestock, rubbish tips, industrial sites and caravan parks. Most have nothing to do with the sewerage network but can have a big cumulative impact at the beach. Potential issues can be followed up face to face by our Coastal Catchment Managers.

A smaller footprint

- Gross operational carbon emissions have decreased by 6% in comparison to the 2009/10 baseline, with net operational carbon emissions dropping by 8% in 2014/15 compared to 2009/10.
- A very strong performance over AMP5, mitigating the forecast 10% increase in carbon emissions from new assets, and delivering a further 6% reduction in absolute terms against the baseline year.
- Exceptional CHP performance, with output three times higher than at the start of AMP5.

Anglian Water's carbon journey started in 2006, with recognition of the challenges we faced from a changing climate and a rising population. In response to Ofwat's request for operational and carbon data for business plans, we created over 1,300 models to measure carbon within our investment plan and create a baseline. In 2009 a bespoke carbon modelling tool was developed and made available to the supply chain. This allowed engineers to choose between designs when looking for the lowest carbon solution.

We also put in place two Love Every Drop carbon targets. These are: to reduce our gross operational carbon emissions by 10% in real terms by 2015 from a 2010 baseline of 485,930 t/CO_2e; and to halve our embodied carbon in new assets we build in 2015 from a 2010 baseline.

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

ANGLIAN WATER

From 2015 onwards our goals have been updated: to exceed a 7% reduction in real terms in gross operational carbon by 2020 from a 2015 baseline; and to deliver a 60% reduction in capital (embodied) carbon by 2020 from a 2010 baseline.

In 2014/15, gross operational carbon emissions have decreased by 6% in comparison to the 2009/10 baseline, decreasing from 485,930 t/CO_2e to 455,335 t/CO_2e. This is indicative of a very strong performance over AMP5, not only mitigating the forecast 10% increase from new assets we have installed, but also delivering a further 6% reduction in absolute terms against the baseline year.

The main influencing factors include a reduction of 8% in energy imported from the grid from 2010 to 2015; a reduction of 83% in the amount of natural gas used in in treatment process and combined heat and power between 2010 and 2015; and a three-fold increase between 2010 and 2015 in renewable power generated from biogas.

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

Annual net operational carbon emissions have dropped by 8% in 2014/15 in comparison to the 2009/10 baseline, decreasing from 485,307 t/CO_2e to 446,834 t/CO_2e.

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

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

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

We have continued to ensure all new and existing assets are as energy efficient as possible. Through our Energy Initiative we have partnered with external energy specialists, delivered energy-saving projects and engaged the hearts and minds of our staff. This year we delivered energy projects which saved £1.5 million. In total across AMP5 we have delivered around 1,000 energy projects, bringing our cumulative saving to well over £16 million.

During 2014/15 we created an in-house team to operate and maintain our fleet of Combined Heat and Power (CHP) engines. These engines are fuelled by the biogas produced during our water recycling process. This year we achieved our biggest increase in energy generated by the fleet. The output of 89GWh was three times higher than we generated at the start of AMP5.

We were helped by our patented Heating, Pasteurisation, Hydrolysis (HPH) process. This conditions sewage sludge before treatment, leading to better quality biosolids for agriculture and 5% more biogas for our CHP engines.

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

Our aim is to become a zero waste company. That means increasing the amount of material we reuse and recycle in every part of our operation. In 2014/15, the business as a whole recycled 95.6% of waste. Looking solely at waste generated by Anglian Water Services, the figure is 97.8%. Zero waste will be a key target for our construction partners during AMP6.

The biosolids produced from our water recycling process are a valuable product for farmers and an important source of income for Anglian Water. We also believe that recycling biosolids to agriculture is the right and most sustainable thing to do. It is important that the food industry also has total confidence in our product. To support this, we have led the water industry in the creation of a national assurance scheme for

ANGLIAN WATER

biosolids, and have funded its development. We have now incorporated a new company, Assured Biosolids Limited, which will be jointly owned by all the water and sewerage companies (WASCs) in England and Wales and which will administer the new scheme on their behalf.

Caring for communities

- Another year of exceptional Health and Safety performance, with best ever results on accident frequency rate and days lost to sickness.
- Supported Fenland District Council to shape their strategic vision, opening the area up to growth and opportunity through better transport and infrastructure.
- Signed the Armed Forces Covenant, committing to support reservists and help ex-servicemen and women return to civilian life.
- Opened the UK's largest inland beach at Rutland Water.

Whatever the job, however urgent the deadline, we never compromise on health or safety in the way we care for our communities of staff and customers. Our approach is set out in our health and safety charter, which states: nothing is so important that we cannot take the time to do it safely; we will never knowingly walk past an unsafe or unhealthy act or condition; and we are committed to the principle that all accidents and harm are preventable. We have maintained our OHSAS 18001 accreditation for our health and safety system since 2009, following twice-yearly external audit by specialists from Lloyds Register Quality Assurance.

In November we held a health and safety conference attended by more than 300 of our managers and safety representatives together with those from our key partners. With our new, long-term alliances in place, we will be working alongside companies that are industry leaders in health and safety. We will be sharing best practice and further improving standards on site.

Our ultimate goal is no accidents and no harm to people, and we continue to set challenging targets each year to reduce the number of accidents as we strive to meet this goal. In 2014/15 we achieved our best ever AFR (Accident Frequency Rate) of 0.16 per 100,000 hours worked, down from 0.21 in 2013/14, along with our lowest ever level of sickness absence at 4.79 days (4.96 2013/14; 5.56 2012/13; 5.10 2011/12). In 2014/15, the number of Category 1 incidents – those that are classified as very serious – was 4 (11 2013/14). This is an industry-leading performance of which we are very proud.

Our health and safety performance has again been recognised by the Royal Society for the Prevention of Accidents (RoSPA). This year we have again received a Gold Medal, placing our health and safety performance among the very best in industry. This is an accolade awarded for our consistently excellent and continuously improving health and safety.

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

Our Water Parks and nature reserves provide recreation for many thousands of people, and they conserve and enhance our region's considerable natural riches. We manage public access to almost 4,000 hectares of parkland, woodland and water, most of it centred on 10 of our 14 reservoirs. This year, these parks played host to more than 600 competitions, charity and public events. The prestigious Green Flag – the national standard for park management – was maintained by Rutland, Grafham and Alton Water Parks in 2015. A joint application between Anglian Water and Northamptonshire County Council for Green Flag status at Pitsford Water and Brixworth Country Park will be judged in the summer of 2015.

There is significant innovation in our recreation business. During the year we reinvented, renovated, and reopened our site at Taverham Mills, creating a new wetland nature reserve. We have secured planning permission for an 88-pitch campsite at Alton Water. We have also formed a project team with local community partners to secure funding for new visitor and water sport facilities at Alton Water.

In the summer of 2014, we opened an inland beach at Rutland Water, the largest of its kind in the UK. Stretching along 180 metres of shoreline, it was the first of its kind for any water company in the UK. The

ANGLIAN WATER

beneficial impact of the project has extended beyond increased visitor numbers to the site, with positive anecdotal feedback from local shops and hotels.

We remain committed to our goal of being an employer of choice. We currently have 22 people on our two-year graduate development scheme, employed in either specific departments or on a rotational programme. 87% of those graduates who joined in the last 10 years are still with us. There are currently 109 apprentices across our water and water recycling operations and a further 16 will join in the coming year. Apprentices are vital to our long-term resourcing strategy and work alongside our more experienced technicians to transfer vital organisational and technical knowledge.

Despite being a highly engineering biased organisation, women are represented at all levels of Anglian Water, accounting for 33% of our technical experts and 21% of our senior managers. Currently, 25% of Anglian Water's executive directors are women and female directors represent 12.5% of the AWS Board. Women make up 34% of our people managers and in recent recruitment 60% of our graduate population is female. Overall, 30% of our employees are female and 70% are male. Anglian Water is committed to equality, having reviewed its diversity and equality policies in 2014/15 and is now implementing its diversity plan for during 2015/16.

In March 2015, we signed the Armed Forces Covenant, making a formal commitment to help ex-servicemen and women transition successfully to civilian life. In the past year, more than 40 have joined in a variety of roles, including Customer Service Advisors, Plant and Network Engineers, Renewable Energy Managers and Tanker Drivers. They bring with them vital skills to help with the engineering challenge of maintaining and improving our network of pipes, sewers, pumping stations and treatment works.

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

Our community education programme continues to forge productive working relationships with schools across our region. Our free sessions engage young people on issues such as water conservation, environmental protection and responsible use of the sewer network. We also participate in Business in the Community's Business Class programme, and have formed long-term partnerships with four schools in more deprived parts of our region. These long-term partnerships improve the prospects of many more young people; widening their horizons, broadening their aspirations and equipping them with valuable skills for later life. Each year we visit more than 180 schools; every school visited since September 2014 has rated the sessions as excellent.

Our commitment to the Fenland area has continued during 2014/15, and a senior operations manager has been seconded to Business in the Community to work in the region as a full-time Business Connector. His role is to champion local collaboration and bring the area's local authorities, charities and community groups together with local businesses like Anglian Water to provide practical help and support in tackling a range of complex issues. Our capital delivery partners are also active in their support, giving freely of their ideas and expertise across a range of essential projects.

To create real, long-lasting change, we have been supporting Fenland District Council to go further and tackle the underlying causes of isolation, lack of opportunity and low aspiration. We are working jointly on a transformative vision called *Wisbech 2020*, bringing together a coalition of public and private-sector partners. We are campaigning to deliver major improvements to North Cambridgeshire's road, rail and other infrastructure to help unlock growth and attract inward investment. This includes lobbying government for a direct rail service between Wisbech and Cambridge to help reduce isolation and open up the jobs market in a cost effective and sustainable way. As a result, the need for this rail link has been recognised in the Prime Minister's long-term economic plan for the east of England.

ANGLIAN WATER

Getting it right for you

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

Investing for tomorrow

- Appointed partners for our four new AMP6 alliances.
- Agreed £8.4 million of partnership funding for flood and coastal erosion projects across the region.
- Excellent performance at our Water Treatment Works and Water Recycling Centres.
- Stable serviceability across all areas in 2014/15.
- Reduction in Category 1 and 2 pollutions from 9 to 7.

We were one of the first companies in the world to achieve ISO 55001 accreditation, the new international standard in asset management. This year, we not only retained that accreditation but demonstrated continuous improvement in our approach to asset management. The standard is awarded to businesses which effectively and efficiently manage their approach to asset management, whether it's physical infrastructure, management processes, maintenance or planning.

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

Throughout AMP5 (2010-15) we have worked hard to become ever more efficient. We have done this by challenging ourselves and setting stretching goals. These have been sustainable efficiencies we can maintain for the long-term, not short term cost cutting that would adversely affect the business. As a result, we outperformed our Final Determination on both operating expenditure and capital expenditure. On capital expenditure we made efficiencies of £486 million on a £2.4 billion programme. This has allowed us to pay for £80 million of unfunded work, including the adoption of private sewers, and an increase in bad debt without passing on the cost to customers. As previously mentioned we have also been able to invest an extra £235 million into customers' priorities, protecting people against the impact of drought, reducing leakage and investing to increase the resilience and reliability of our assets. It has also been possible to pass some of the efficiencies back to customers by lowering bills over the next five years.

In the final year of AMP5, we have continued to invest heavily to increase the resilience of our services and protect customers' supplies. This has included work to improve our ability to move water around the region, to protect our existing supplies through improved detection and repair of leaks, and to support growth in our region and work with developers.

To deliver the outcomes our customers want demands the closest possible collaboration between us, our suppliers and contractors. Ahead of AMP6, we took the opportunity to change the way we deliver our capital investment. Our entire capital delivery was put out to market at the same time to ensure a consistent approach across the board. We have now appointed our partners, grouped into four new alliances to help us deliver our services for the next 15 years. All were appointed on the basis that they were signing up to deliver the outcomes agreed with our customers and the Love Every Drop goals that drive us towards those outcomes. These alliances are different from those elsewhere in the industry, with an unparalleled degree of integration and alignment and the opportunity for longer term collaboration.

Our four new alliances for AMP6 and beyond are:

Integrated Main Works Capital (IMWC) – The largest of the new alliances, IMWC includes Balfour Beatty, Barhale, Grontmij, MWH, Mott MacDonald and Skanska, alongside Anglian Water, maintaining the @one Alliance name. In place since last May, it combines the work of Special Projects and the @one Alliance to cover all types of complex construction and refurbishment projects.

Integrated Operational Solutions (IOS) – Includes Morrison Utility Services, Barhale and Kier, and covers local refurbishment and maintenance across both Water and Water Recycling.

ANGLIAN WATER

Integrated Metering and Developer Services (IMDS) – Includes Kier and Clancy Docwra, covering industrial and domestic metering, new housing and estate infrastructure and water efficiency audits.

Integrated Maintenance and Repair (IMR) – Covers network infrastructure maintenance for both water – with partners Kier and Clancy Docwra, and water recycling – with Claret Civil Engineering, Danaher & Walsh, Clancy Docwra and Public Sewer Services.

The performance of our assets remained solid this year, with stable serviceability across all areas. Throughout the year, we have delivered consistently good performance at our water treatment works and across our networks with all measures comfortably within our reference levels, except for 'unplanned interruptions to supply'. This follows two exceptional events, one at Caistor Water Treatment Works and the second in the Ely Public Water Supply Zone. A robust case has been made to Ofwat that neither event is indicative of the wider serviceability of our assets. If they agree, it will lead to a stable serviceability assessment for this measure too.

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

Our success is largely due to closer management of sites, helped by improved monitoring which allows us to see how individual sites are performing in almost real time. As a result we can be much more proactive, responding to potential risks before problems arise.

We also saw further improvement in the performance of our sewerage network, with fewer blockages and collapses, while flooding and pollutions remained largely stable. This was thanks to our programme of planned preventative maintenance, the continued success of our Keep it Clear campaign and other initiatives. The number of category 1 and 2 pollutions dropped this year from nine to seven. We will continue to challenge and evolve our approach to drive performance towards our goal of no pollutions.

Flooding remains one of the most significant challenges our network and our customers face. We are working with the Environment Agency and the 21 Lead Local Flood Authorities (LLFAs) in our region to identify planned flood prevention projects with benefits for our customers. We have agreed to provide £8.4 million of partnership funding for projects across the region during AMP6. Working in partnership allows us to deliver more for less, reducing flooding and pollution incidents and maintaining our customers' water recycling service.

We continue to lead the industry on the adoption of sustainable drainage systems (SuDS) on new developments. These improve an area's natural ability to absorb surface water and reduce flood risk without expensive, carbon-intensive engineering solutions. This year we completed our first two SuDS retrofit schemes to help reduce the risk of flooding to a number of customers in Norfolk and Suffolk. We are learning lessons from each of these installations, to improve the efficacy of future schemes.

During 2014 we held a number of innovation events across our region, bringing together hundreds of organisations around the themes of Energy and Water; SMART Technology; Innovation through the Supply Chain; and Water, Food and Agriculture. This cross-sector thinking led to some great ideas that are being followed up in the Innovation Shop Window, a geographic part of our region around Newmarket and Cambridge which we have identified as a test-bed in which we show, in microcosm, the combined effect of existing and future innovation.

Fair profits

- Average bills to fall 7% in real terms.
- Water and sewerage services just £1.10 per day per household.
- Total direct and indirect tax paid or collected in the year, other than Corporation Tax, was £174 million.

In January, we agreed to Ofwat's Final Determination on our Business Plan for the next five years. We are reducing our average bill by 7% in real terms in 2015/16, the largest percentage reduction of all the water and sewerage companies in the industry. Bills will then stay flat before inflation for the rest of AMP6. This follows our decision to limit the average bill price increase in 2014/15 to RPI – below the level allowed for by

ANGLIAN WATER

the regulatory settlement. Based on the average household bill in 2015/16, water and sewerage charges will cost £1.10 per day.

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

We take our responsibilities as a good corporate citizen very seriously, making significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Total tax paid or collected in the year to 31 March 2015, other than corporation tax, amounted to £174 million (2014: £167 million), of which £56 million was collected on behalf of the authorities for net value added tax (VAT) and employee payroll taxes.

The most significant taxes involved were: business rates of £70 million paid to local authorities; employment taxes of £48 million, including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid; VAT of £22 million collected and paid to HMRC; abstraction licences and direct discharges of £13 million; Fuel Excise Duty (FED) of £5 million; Carbon Reduction Commitment (CRC) of £6 million.

Our key risks

Effective risk management is central to the achievement of our strategic priorities. It is managed across our business through a number of formal and informal processes to identify new risks in a timely manner and ensure swift mitigation can be implemented.

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

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

The Top Tier risk register, which outlines the principal risks to the business, is reviewed on a regular basis by the AWS Management Board, the Risk and Compliance Monitoring Committee, the AWS Audit Committee and the AWS Board.

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

Climate change and flooding

Description

Climate change is a major challenge to our business that can impact our assets and service to our customers. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, and our low-lying region makes us particularly vulnerable to localised flooding. It is therefore vital that we manage severe weather, both today and in the future.

Mitigation

Our senior-level Climate Change Steering Group assesses the implications for our business and has visibility of the delivery of our mitigation and adaptation strategies. Climate change scenarios are being integrated into the decisions about future investment and our Integrated Drainage Strategy identified investment at 35 sites for AMP6 including investment to protect us against further flood risk. This is in addition to the money

ANGLIAN WATER

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

Financing our business

Description

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

Mitigation

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

We are funded predominantly by debt in the form of long-term bonds and other debt instruments, with equity (shares) making up the balance of our regulatory capital value. Net debt accounts for approximately 79.2% of our regulatory capital value as at 31 March 2015. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average, producing lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity.

Regional growth

Description

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

Mitigation

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

Water sector reform and other legislation

Description

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

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

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

Mitigation

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

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

ANGLIAN WATER

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

Bad debt

Description

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

Mitigation

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

We place a strong focus on the collection of customer debts and use all available recovery procedures to minimise the levels of bad debt, including legal redress. We operate a leading debt management system and now share credit reference data with Experian, a leading credit reference agency. This sharing of data allows us to better target our debt recovery efforts, encourages prompt payment and improves credit scores for those customers with little credit history.

Energy and carbon management

Description

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

Mitigation

We mitigate our exposure to price movements in wholesale energy markets using a programme of forward hedges with our energy supplier and financial counterparties. During AMP5 we progressively secured 100% of our wholesale electricity costs and we have already purchased a significant proportion of our requirement for AMP6.

We also have a continuous programme to reduce energy consumption, with a focus on the energy efficiency of new investments, and on more energy-efficient ways to operate our current sites. We continue to invest in back-up power supplies and renewable energy. Not only does this protect us against supply problems and volatile costs, but it also reduces our carbon footprint.

Efficiency delivery

Description

The delivery of efficiencies in our operations is vital to our success – keeping our costs under control helps to minimise our customers' bills and is an important measure of our performance within the regulatory structure. As we move into AMP6 new Regulatory Incentives begin, such as Outcome Delivery Incentives, which will require us to adapt our strategies.

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

ANGLIAN WATER

Mitigation
Examples of efficiency projects we have implemented during AMP5 include the following:

- Changing working practices in our frontline workforce.
- Setting up a major efficiency programme across our back-office teams.
- Introducing changes to pension arrangements.
- Pursuing energy efficiency and energy optimisation of our treatment and distribution systems.
- Refining our procurement and sourcing strategy.
- Encouraging business units to implement smaller, locally driven initiatives.
- Carrying out rigorous root cause analysis early on in our capital delivery process to ensure we provide the right whole-life cost solutions.
- Focusing on both cost and carbon, and the relationship between them, to find innovative ways of providing sustainable solutions.
- Developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site.
- Improving the operability of what we build by having clear and agreed deliverables.

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

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

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

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

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

- Spending of around £5.8 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority, 'blue light' response for areas with historic pollution risk and/or significant environmental sensitivity.
- Investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock.
- Continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Reducing blockages, which are responsible for the majority of pollutions. A fats, oils and grease (FOG) and unflushables campaign aimed at changing customer behaviours continues to drive down blockages,

ANGLIAN WATER

resulting in an average of 52% fewer blockages in the areas targeted so far, with a 30% reduction across the Anglian Water region.

- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

Outcome delivery incentives

Description

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

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

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

Mitigation

We have a detailed programme of investment and improvements to processes, assets and infrastructure. We are moving to ever more proactive, targeted and efficient ways of working, and better, smarter use of systems and data. We are increasing collaboration across the business, with key stakeholders and with customers. We aim to continuously monitor and improve our performance to achieve and exceed the measures set.

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

Cyber security and data protection

Description

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

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

Mitigation

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

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

ANGLIAN WATER

Financial performance

Anglian Water Services Limited operates on an arm's-length basis from other companies within the group. The financial results for Anglian Water are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc.

The financial results for Anglian Water have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time this year, having previously applied generally accepted accounting practice in the UK (UK GAAP). Anglian Water's activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and wastewater) and the conditions of an Instrument of Appointment (the Licence) granted to Anglian Water by the Secretary of State for the Environment on 1 September 1989.

The underlying financial results of Anglian Water are summarised in the table below:

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Revenue	**1,244.3**	1,214.0
Other operating income	**12.9**	12.3
Underlying operating costs [(1)]	**(523.9)**	(485.4)
Depreciation and amortisation	**(280.7)**	(272.0)
Underlying operating profit	**452.6**	468.9
Finance income (adjusted) [(2)]	**4.2**	4.9
Finance costs [(1)]	**(274.8)**	(305.9)
Underlying profit before tax	**182.0**	167.9

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

(2) In order to show the position of the Anglian Water Services Financing (AWSF) group (which comprises Anglian Water Services Holdings Limited, Anglian Water Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc), finance income is shown excluding internal interest receivable from Anglian Water Services Holdings Limited of £192.3 million (2014: £192.3 million).

The table below sets out the reconciliation between the statutory results and the underlying financial performance as shown above.

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Underlying profit before tax	**182.0**	167.9
Operating costs - fair value losses on energy hedges	**(0.8)**	(5.4)
Finance costs - fair value (losses)/gains on financial derivatives	**(212.8)**	86.4
Finance income - intragroup interest receivable	**192.3**	192.3
Profit before tax on a statutory basis	**160.7**	441.2

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

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

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

ANGLIAN WATER

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

The bad debt charge for the year was £33.1 million, which is up modestly on last year's charge of £32.4 million. Expressed as a percentage of revenue the bad debt charge for 2015 was 2.66% compared with 2.67% in the prior year.

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

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

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

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

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

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

Taxation

Current tax

The current tax charge for the year was £12.6 million (2014: £22.4 million). This reflects a reduction in the corporation tax rate from 23% to 21% for the year and an increased prior year adjustment due to reaching

ANGLIAN WATER

agreement with HMRC over the treatment of certain capital expenditure at our treatment works. This is partially off-set by an increase in profits (before fair value movements) and a lower level of capital allowances claimed on the substantial capital investment we make to improve the service to customers.

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

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

Total tax paid or collected in the year to 31 March 2015, other than corporation tax, amounted to £174 million (2014: £167 million) of which £56 million was collected on behalf of the authorities for net value added tax (VAT) and employee payroll taxes. Further details are provided in our section on fair profits.

Successful final year of AMP5 investment programme
AMP5 gross capital expenditure[3] in the appointed business for the year was £438.7 million (£217.1 million on capital maintenance, £221.6 million on capital enhancement), compared to £424.3 million in 2014. This includes £57.0 million of AMP6 transition programme expenditure referred to below.

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

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

We have delivered an impressive 54% reduction in embodied carbon in the schemes completed this year compared to our 2010 baseline. As embodied carbon is a natural proxy for the use of finite materials and energy used in building new assets, our approach is not only good for the environment but also provides significant business efficiencies with a proven link between reducing carbon and reducing costs. Our supply chain’s commitment to supporting us in this has been key to the delivery of our carbon reduction. By helping us to challenge traditional construction methods and solutions, alongside enabling our use of innovative techniques, it has also driven us to set even more stretching targets for the next AMP period. For example, we are now targeting 90% of our infrastructure renewals through ‘no dig’ techniques, such as relining or directional drilling, having achieved 80% at the end of AMP5.

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

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

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[3] Stated on a UK GAAP basis to be consistent with Final Determination against which our programme delivery is measured. On an IFRS basis and excluding capitalised interest, gross capital expenditure for the appointed business was £406.7 million (2014: £410.2 million).

ANGLIAN WATER

Financial needs and resources

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

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

The business generated a net cash inflow from operating activities of £708.1 million in the year ended 31 March 2015 (2014: £691.9 million).

Liquidity

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

Anglian Water has access to £500.0 million of facilities (2014: £420.0 million), which were undrawn at 31 March 2015, to finance capital expenditure and working capital requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (2014: £375.0 million), consisting of £279.0 million to finance debt service costs and £96.0 million to finance operating expenditure and maintenance capital expenditure in the event that Anglian Water was in default on its debt obligations and had insufficient alternative sources of liquidity.

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

Interest rates

Anglian Water's policy is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 56.5% (2014: 54.0%) of Anglian Water's borrowings were at rates indexed to RPI, 34.8% (2014: 37.0%) were at fixed rates and 8.7% (2014: 9.0%) were at floating rates.

Pension funding

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

ANGLIAN WATER

Looking ahead

Having concluded AMP5 and agreed our business plan for AMP6 with Ofwat, we are now focused on the efficient delivery of that plan, investing in our region, securing good outcomes for customers, while protecting and improving the environment.

We will continue to engage with the market reform agenda. We will contribute to the development of the non-household customer market, to discussions relating to abstraction reform, and to all pertinent consultations on the future of the water industry.

Customers remain at the heart of our work and planning, and above all we will continue to focus on delivering excellent operational performance and high levels of customer service. We will ensure stakeholder and customer support for our work programme drives innovation, collaboration, improved efficiency and excellent customer service.

PROPERTY

Financial performance and Key Performance Indicators

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Operating loss before exceptional operating costs	**(8.6)**	(9.2)
Exceptional operating costs	**(6.9)**	-
Share of joint ventures operating profit	**0.9**	1.7
Operating cash flow	**(5.7)**	(9.8)
Joint venture off balance sheet debt	**61.9**	66.4

Introduction
During 2014/5, the group's strategy has been to continue to pursue the realisation of value and mitigation of risk from its property investments. Notwithstanding the difficult commercial property market present throughout 2014/15, this process has allowed the realisation of further value from certain strategic land assets and a reduction in joint venture off balance sheet debt by £4.5 million to a level of £61.9 million at year end.

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

Financial performance
AWG Property's revenue was £10.4 million (2014: £8.8 million) and the operating loss before exceptional operating costs was £8.6 million (2014: £9.2 million).

Exceptional costs
AWG Property has historically invested in a number of commercial joint ventures, through the provision of loans subordinated to external bank funding. The recovery of these loans is at least partly dependent on sufficient time period being available to maximise the recoverable value. A significant proportion of this third party off balance sheet bank funding has a final maturity date of 31 March 2016 and as the group does not have sufficient confidence that these loans will be extended beyond 31 March 2016 on acceptable terms, and reflecting the current independent valuation of these properties, £4.9 million has been written off the amount recoverable from the joint ventures as an exceptional operating cost. In addition, AWG Property incurred a loss of £2.0 million on the early disposal, in order to mitigate future cash outflows, of two of its properties.

Management
AWG Property has its own Board, which consists of the Managing Director of AWG Property and three further Executive Directors. The Managing Director of AWG Property oversees the day-to-day operations.

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

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

Outlook
AWG Property will focus on the controlled realisation of value from its remaining property portfolio.

OTHER BUSINESS ACTIVITIES

The 'Other' business segment mainly comprises head office, and Celtic Anglian Water, a joint venture which operates wastewater treatment works in the Republic of Ireland.

Pensions

At 31 March 2015 the deficit for the group was £45.9 million (2014: £71.6 million), with the deficit reduction contributions made in the year benefitting pension scheme assets which also performed ahead of expectations. Pension scheme liabilities were adversely impacted by a decrease in the discount rate, partly offset by a reduction in future inflation assumptions. Future additional contributions will continue to be made in line with actuarial advice.

Treasury management

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

The central treasury function actively:

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

The group's Board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 22 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2015 the group held cash, deposits and current asset investments of £815.5 million (2014: £730.2 million) and had undrawn committed facilities of £900 million (2014: £820 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 22 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2015 Anglian Water's and Osprey Acquisitions' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.2% (2014: 79.6%) and 85.0% (2014: 85.4%) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by the company, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2015, all group companies were compliant with all covenants.

OTHER BUSINESS ACTIVITIES

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

Approval of the strategic report
This strategic report was approved by the Board of Directors on 17 July 2015 and signed on its behalf by:

Claire Russell
Company Secretary

Osprey Acquisitions Limited

Group income statement

for the year ended 31 March 2015

Notes		Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
	Continuing operations		
4	**Revenue**	**1,254.4**	1,222.6
5	Other operating income	**12.9**	12.3
6	Operating costs		
	Operating costs before depreciation and amortisation	**(549.7)**	(510.8)
	Depreciation and amortisation	**(280.9)**	(272.1)
	Fair value losses on energy hedges	**(0.8)**	(5.4)
7	Exceptional operating costs	**(6.9)**	-
	Total operating costs	**(838.3)**	(788.3)
	Operating profit	**429.0**	446.6
	Finance income	**6.0**	5.6
	Finance costs	**(311.6)**	(330.6)
	Fair value (losses)/gains on derivative financial instruments	**(208.5)**	91.0
8	Net finance costs	**(514.1)**	(234.0)
17	Share of profit of joint ventures	**1.0**	2.6
	(Loss)/profit before tax from continuing operations		
	Before exceptional items, fair value (losses)/gains and tax	**132.1**	129.6
7	Exceptional items	**(6.9)**	-
	Fair value (losses)/gains on derivatives	**(209.3)**	85.6
	(Loss)/profit before tax from continuing operations	**(84.1)**	215.2
9	Tax	**33.0**	135.9
	(Loss)/profit for the year	**(51.1)**	351.1
	Attributable to:		
	Owners of the parent	**(51.1)**	351.1
	Non-controlling interests	**-**	-

Notes 1 to 34 are an integral part of these financial statements.

Osprey Acquisitions Limited

Group statement of other comprehensive income

for the year ended 31 March 2015

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
(Loss)/profit for the year	**(51.1)**	351.1
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on retirement benefit obligations	**(1.5)**	5.5
Income tax on items that will not be reclassified	**0.3**	(2.0)
	(1.2)	3.5
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	**(73.3)**	11.1
Currency translation differences	**(0.7)**	0.1
Income tax on items that may be reclassified	**14.6**	(3.6)
	(59.4)	7.6
Total comprehensive (expense)/income for the year	**(111.7)**	362.2
Attributable to:		
Owners of the parent	**(111.7)**	362.2
Non-controlling interests	**-**	-

Osprey Acquisitions Limited

Group balance sheet

at 31 March 2015

Notes		At 31 March 2015 £m	At 31 March 2014 £m	At 1 April 2013 £m
	Non-current assets			
13	Goodwill	**445.8**	445.8	445.8
14	Other intangible assets	**117.0**	85.7	76.3
15	Property, plant and equipment	**9,454.9**	9,337.6	9,180.6
16	Investment properties	**2.0**	2.0	2.0
17	Investments in joint ventures	**3.5**	4.1	3.6
22	Derivative financial instruments	**105.9**	86.1	160.0
		10,129.1	9,961.3	9,868.3
	Current assets			
18	Inventories	**20.8**	25.6	24.5
19	Trade and other receivables	**523.3**	496.2	476.9
17	Investments	**112.0**	80.9	129.0
	Cash and cash equivalents	**703.5**	649.3	1,001.9
22	Derivative financial instruments	**36.9**	32.4	147.1
		1,396.5	1,284.4	1,779.4
	Total assets	**11,525.6**	11,245.7	11,647.7
	Current liabilities			
20	Trade and other payables	**(485.5)**	(431.6)	(452.3)
	Current tax liabilities	**(14.8)**	(16.0)	(17.6)
21	Borrowings	**(1,105.4)**	(907.8)	(1,516.4)
22	Derivative financial instruments	**(16.4)**	(19.0)	(117.9)
23	Provisions	**(6.4)**	(7.1)	(6.9)
		(1,628.5)	(1,381.5)	(2,111.1)
	Net current liabilities	**(232.0)**	(97.1)	(331.7)
	Non-current liabilities			
21	Borrowings	**(6,722.8)**	(6,722.2)	(6,454.7)
22	Derivative financial instruments	**(897.6)**	(609.0)	(631.3)
24	Deferred tax liabilities	**(1,030.8)**	(1,088.2)	(1,228.7)
25	Retirement benefit obligations	**(45.9)**	(71.6)	(101.8)
23	Provisions	**(17.8)**	(19.4)	(19.9)
20	Other non-current liabilities	**(422.1)**	(390.5)	(360.3)
		(9,137.0)	(8,900.9)	(8,796.7)
	Total liabilities	**(10,765.5)**	(10,282.4)	(10,907.8)
	Net assets	**760.1**	963.3	739.9
	Capital and reserves			
26	Share capital	**854.2**	854.2	854.2
	Revaluation reserve	**2,560.2**	2,560.2	2,560.2
	Accumulated losses	**(2,566.4)**	(2,422.6)	(2,638.4)
27	Hedging reserve	**(87.7)**	(29.0)	(36.5)
	Translation reserve	**(0.6)**	0.1	-
	Equity attributable to owners of the parent	**759.7**	962.9	739.5
	Non-controlling interests	**0.4**	0.4	0.4
	Total equity	**760.1**	963.3	739.9

Notes 1 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 17 July 2015 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Osprey Acquisitions Limited

Company balance sheet

at 31 March 2015

Notes		At 31 March 2015 £m	At 31 March 2014 £m	At 1 April 2013 £m
	Non-current assets			
17	Investments	**2,311.8**	2,311.8	2,311.8
24	Deferred tax assets	**3.8**	5.1	8.3
22	Derivative financial instruments	**11.3**	12.1	21.8
		2,326.9	2,329.0	2,341.9
	Current assets			
19	Trade and other receivables	**1.3**	-	0.1
	Current tax receivables	**10.8**	9.4	9.7
17	Investments	**-**	12.5	12.1
	Cash and cash equivalents	**22.6**	9.4	9.7
22	Derivative financial instruments	**2.0**	2.0	1.9
		36.7	33.3	33.5
	Total assets	**2,363.6**	2,362.3	2,375.4
	Current liabilities			
20	Trade and other payables	**(0.2)**	-	-
21	Borrowings	**(744.8)**	(733.9)	(734.5)
22	Derivative financial instruments	**(5.4)**	(5.4)	(5.1)
		(750.4)	(739.3)	(739.6)
	Net current liabilities	**(713.7)**	(706.0)	(706.1)
	Non-current liabilities			
21	Borrowings	**(444.8)**	(443.7)	(441.8)
22	Derivative financial instruments	**(30.6)**	(37.9)	(58.7)
		(475.4)	(481.6)	(500.5)
	Total liabilities	**(1,225.8)**	(1,220.9)	(1,240.1)
	Net assets	**1,137.8**	1,141.4	1,135.3
	Capital and reserves			
26	Share capital	**854.2**	854.2	854.2
	Retained earnings	**291.3**	296.6	295.1
27	Hedging reserve	**(7.7)**	(9.4)	(14.0)
	Total equity	**1,137.8**	1,141.4	1,135.3

Notes 1 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 17 July 2015 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Osprey Acquisitions Limited

Group statement of changes in equity

for the year ended 31 March 2015

	Share capital £m	Revaluation reserve £m	Accumulated losses £m	Hedging reserve £m	Translation reserve £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
For the year ended 31 March 2015								
At 1 April 2014	854.2	2,560.2	(2,422.6)	(29.0)	0.1	**962.9**	0.4	**963.3**
Loss for the year	-	-	(51.1)	-	-	**(51.1)**	-	**(51.1)**
Other comprehensive income for the year	-	-	(1.2)	(58.7)	(0.7)	**(60.6)**	-	**(60.6)**
Total comprehensive income	-	-	(52.3)	(58.7)	(0.7)	**(111.7)**	-	**(111.7)**
Dividends	-	-	(91.5)	-	-	**(91.5)**	-	**(91.5)**
At 31 March 2015	**854.2**	**2,560.2**	**(2,566.4)**	**(87.7)**	**(0.6)**	**759.7**	**0.4**	**760.1**
For the year ended 31 March 2014								
At 1 April 2013	854.2	2,560.2	(2,638.4)	(36.5)	-	**739.5**	0.4	**739.9**
Profit for the year	-	-	351.1	-	-	**351.1**	-	**351.1**
Other comprehensive income for the year	-	-	3.5	7.5	0.1	**11.1**	-	**11.1**
Total comprehensive income	-	-	354.6	7.5	0.1	**362.2**	-	**362.2**
Dividends	-	-	(138.8)	-	-	**(138.8)**	-	**(138.8)**
At 31 March 2014	**854.2**	**2,560.2**	**(2,422.6)**	**(29.0)**	**0.1**	**962.9**	**0.4**	**963.3**

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 27).

Company statement of changes in equity

for the year ended 31 March 2015

	Share capital £m	Retained earnings £m	Hedging reserve £m	**Total equity £m**
For the year ended 31 March 2015				
At 1 April 2014	854.2	296.6	(9.4)	**1,141.4**
Profit for the year	-	86.2	-	**86.2**
Other comprehensive income for the year	-	-	1.7	**1.7**
Total comprehensive income	-	86.2	1.7	**87.9**
Dividends	-	(91.5)	-	**(91.5)**
At 31 March 2015	**854.2**	**291.3**	**(7.7)**	**1,137.8**
For the year ended 31 March 2014				
At 1 April 2013	854.2	295.1	(14.0)	**1,135.3**
Profit for the year	-	140.3	-	**140.3**
Other comprehensive income for the year	-	-	4.6	**4.6**
Total comprehensive income	-	140.3	4.6	**144.9**
Dividends	-	(138.8)	-	**(138.8)**
At 31 March 2014	**854.2**	**296.6**	**(9.4)**	**1,141.4**

Group and company cash flow statements

for the year ended 31 March 2015

Notes		Group		Company	
		Year ended 31 March 2015 £m	Year ended 31 March 2014 £m	**Year ended 31 March 2015 £m**	Year ended 31 March 2014 £m
	Operating activities				
(a)	Cash generated from/(used in) operations	**690.4**	669.3	**(0.1)**	(0.2)
	Dividends received from joint ventures	**1.6**	1.8	**-**	-
	Income taxes (paid)/received	**(10.6)**	(11.8)	**9.4**	9.7
	Net cash flows from operating activities	**681.4**	659.3	**9.3**	9.5
	Investing activities				
	Purchase of property, plant and equipment	**(345.6)**	(402.7)	**-**	-
	Purchase of intangible assets	**(51.8)**	(28.3)	**-**	-
	Grants and contributions received	**32.8**	28.8	**-**	-
	Proceeds from sale of property, plant and equipment	**4.6**	1.4	**-**	-
	Dividends received from subsidiaries	**-**	-	**123.6**	168.6
	Net cash (used in)/from investing activities	**(360.0)**	(400.8)	**123.6**	168.6
	Financing activities				
	Interest received	**4.7**	6.1	**0.1**	0.3
	Interest paid	**(254.9)**	(269.0)	**(38.9)**	(39.0)
	Issue costs paid	**(3.9)**	(3.5)	**(1.8)**	-
	Interest element of finance lease rental payments	**(1.6)**	(2.0)	**-**	-
	Increase/(decrease) in amounts borrowed	**185.0**	403.8	**-**	(0.5)
	Repayment of amounts borrowed	**(65.0)**	(651.6)	**(0.1)**	-
	Capital element of finance lease rental payments	**(8.9)**	(4.0)	**-**	-
	(Increase)/decrease in short-term bank deposits	**(31.1)**	48.1	**12.5**	(0.4)
	Dividends paid	**(91.5)**	(138.8)	**(91.5)**	(138.8)
	Net cash used in financing activities	**(267.2)**	(610.9)	**(119.7)**	(178.4)
	Net increase/(decrease) in cash and cash equivalents	**54.2**	(352.4)	**13.2**	(0.3)
	Cash and cash equivalents at the beginning of the year	**649.3**	1,001.9	**9.4**	9.7
	Effect of foreign exchange rate changes on cash and cash equivalents	**-**	(0.2)	**-**	-
(b)	**Cash and cash equivalents at 31 March**	**703.5**	649.3	**22.6**	9.4

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

Notes to the cash flow statements

for the year ended 31 March 2015

a) Cash generated from operations

	Group		Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Operating profit/(loss)	**429.0**	446.6	**(0.3)**	(0.2)
Adjustments for:				
Amortisation of deferred grants and contributions	**(12.9)**	(12.3)	**-**	-
Depreciation and amortisation	**280.9**	272.1	**-**	-
Profit on sale of property, plant and equipment	**(1.5)**	(0.9)	**-**	-
Fair value losses on energy hedges	**0.8**	5.4	**-**	-
Difference between pension charge and cash contributions	**(29.6)**	(28.4)	**-**	-
Net movement in provisions	**(3.3)**	(1.5)	**-**	-
Working capital:				
Decrease/(increase) in inventories	**4.2**	(1.0)	**-**	-
Increase in trade and other receivables	**(26.3)**	(19.8)	**-**	-
Increase in trade and other payables	**49.1**	9.1	**0.2**	-
	27.0	(11.7)	**0.2**	-
Cash generated by/(used in) operations	**690.4**	669.3	**(0.1)**	(0.2)

b) Analysis of net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments £m	**£m**
The group					
At 1 April 2014	649.3	80.9	(7,630.0)	(497.5)	**(7,397.3)**
Cash flows	54.2	31.1	(154.3)	26.0	**(43.0)**
Interest	-	-	(8.9)	(1.4)	**(10.3)**
Issue costs relating to new borrowings	-	-	3.9	-	**3.9**
Amortisation of discount and expenses relating to debt issues	-	-	(5.0)	-	**(5.0)**
Amortisation of fair value adjustments	-	-	17.2	-	**17.2**
Indexation of borrowings and RPI swaps	-	-	(55.1)	(17.0)	**(72.1)**
Fair value gains and losses	-	-	(22.8)	(259.9)	**(282.7)**
Exchange movements	-	-	26.8	-	**26.8**
At 31 March 2015	**703.5**	**112.0**	**(7,828.2)**	**(749.8)**	**(7,762.5)**
Net debt at 31 March 2015 comprises:					
Non-current assets	-	-	-	105.9	**105.9**
Current assets	703.5	112.0	-	36.9	**852.4**
Current liabilities	-	-	(1,105.4)	(14.4)	**(1,119.8)**
Non-current liabilities	-	-	(6,722.8)	(878.2)	**(7,601.0)**
	703.5	**112.0**	**(7,828.2)**	**(749.8)**	**(7,762.5)**

(1) Derivative financial instruments exclude the liability of £21.4 million (2014: £12.0 million) in respect of the fair value of energy derivatives, as these are not classified as part of net debt.

b) Analysis of net debt (continued)

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

Included within financial investments above are £112.0 million (2014: £80.9 million) of short-term deposits maturing after more than three months, which are included in the heading 'current asset investments' in the balance sheet.

At 31 March 2015, £647.5 million (2014: £619.5 million) of the group's cash and cash equivalents and £110.0 million (2014: £67.9 million) of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £0.8 million (2014: £0.9 million) of the group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £2.2 million (2014: £3.6 million) of the group's cash and cash equivalents and £2.0 million (2014: £0.5 million) of the deposits and investments were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments £m	**£m**
The company					
At 1 April 2014	9.4	12.5	(1,177.6)	(29.2)	**(1,184.9)**
Cash flows	13.2	(12.5)	0.1	9.3	**10.1**
Interest	-	-	(11.0)	-	**(11.0)**
Issue costs relating to new borrowings	-	-	1.8	-	**1.8**
Amortisation of discount and expenses relating to debt issues	-	-	(2.9)	-	**(2.9)**
Fair value gains and losses	-	-	-	(2.8)	**(2.8)**
At 31 March 2015	**22.6**	**-**	**(1,189.6)**	**(22.7)**	**(1,189.7)**
Net debt at 31 March 2015 comprises:					
Non-current assets	-	-	-	11.3	**11.3**
Current assets	22.6	-	-	2.0	**24.6**
Current liabilities	-	-	(744.8)	(5.4)	**(750.2)**
Non-current liabilities	-	-	(444.8)	(30.6)	**(475.4)**
	22.6	**-**	**(1,189.6)**	**(22.7)**	**(1,189.7)**

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have all been consistently applied to all of the years presented.

a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' showing reconciliations for comparative years between UK GAAP and IFRS are shown in note 33.

b) Basis of preparation

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

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Joint ventures

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

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

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and offset firstly against loans and trading balances with the joint venture, with any excess transferred to provisions.

1. Accounting policies (continued)

c) **Foreign currencies**

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement.

On consolidation, the income statements of overseas subsidiaries are translated at the average exchange rates for the period and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

d) **Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

e) **Revenue recognition**

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

i Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.

ii Property development – revenue from sale of development properties, which are not held for the long-term, is recorded when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the period-end. Revenue includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

iii Services contracts – revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed.

iv Interest income – recognised on a time-proportion basis using the effective interest method.

v Dividend income – recognised when the right to receive payment is established.

f) **Research and development**

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised as equipment or intangible assets and is written off over the expected useful life of the asset.

g) **Exceptional items**

Exceptional items are one-off items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

1. Accounting policies (continued)

h) **Taxation**

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

i) **Dividends**

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

j) **Intangible assets**

i *Goodwill*

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Goodwill is tested annually for impairment.

ii *Other intangible assets*

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight line basis over their estimated useful lives, which are primarily three to ten years.

1. Accounting policies (continued)

k) **Property, plant and equipment**

Property, plant and equipment comprises:

- Land and buildings – comprising land and non-operational buildings.
- Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage where not classed as infrastructure along with associated fixed plant.
- Vehicles, mobile plant and equipment.
- Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Items of property, plant and equipment that are transferred to the group from customers or developers are initially recognised at fair value. The corresponding credit is recorded as deferred income and released to other income over the expected useful lives of the related assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30 – 60 years
Infrastructure assets – Water	50 – 120 years
Infrastructure assets – Water Recycling	50 – 160 years
Operational assets	30 – 80 years
Fixed plant	12 – 40 years
Vehicles, mobile plant and equipment	3 – 10 years

Property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

l) **Grants and contributions**

Grants and contributions comprise government grants, infrastructure and connection charges, sewer adoption charges, deficit contributions for requisitioned water and wastewater infrastructure under the Water Acts, non-domestic deficit contributions, other capital and revenue contributions, and contributions for infrastructure diversions.

Capital grants and contributions are credited to a deferral account within creditors and are released to other income evenly over the expected useful life of the related assets.

Deficit contributions are also credited to a deferral account within creditors, and are recognised as other income in line with the expected expenditure they are intended to compensate.

Contributions for diversion are allocated between compensation for the loss of the asset given up, treated in accordance with the asset disposal policy, and capital contribution towards the cost of the replacement asset according to the nature of the diversion.

1. Accounting policies (continued)

m) **Investment properties**
Investment properties are initially recognised at cost. Subsequently, buildings are depreciated over their useful life and land is held at cost and not depreciated.

n) **Leased assets**
Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments, with the corresponding rental obligations, net of finance charges, shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the interest element being charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rental costs arising under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

For the purpose of lease classification, the land and buildings elements of a lease are considered separately.

o) **Investments**
After initial recognition at cost (being the fair value of the consideration paid), investments classified as held for trading or available for sale are measured at fair value, with gains or losses recognised in income or equity respectively. When an available for sale investment is disposed of, or impaired, the gain or loss previously recognised in equity is taken to the income statement.

Other investments are classified as held to maturity when the group has the positive intention and ability to hold to maturity and there is a set maturity date. Investments held for an undefined period are excluded from this classification. Such investments, and those held to maturity, are subsequently measured at amortised cost using the effective interest method, with any gains or losses being recognised in the income statement.

p) **Inventories**
Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

r) **Cash and cash equivalents**
In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts.

1. Accounting policies (continued)

s) **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

t) **Derivative financial instruments**

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

At the inception of the hedging transaction the group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

i *Fair value hedge*

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge no longer meets the criteria for hedge accounting, the hedged item is not adjusted for any subsequent movements in the hedged risk. The amount that the hedged item was adjusted by will be amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

ii *Cash flow hedge*

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value gains/(losses) on derivative financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments, principally index-linked swaps and swaptions, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

1. Accounting policies (continued)

u) **Provisions**

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The group's policy on specific areas is as follows:

i *Onerous lease costs*

Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub-leases.

ii *Closure costs*

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

iii *Redundancy costs*

Redundancy costs are charged to profit and loss in the period in which the group both becomes irrevocably committed to incurring the costs and has raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives.

iv *Self insurance*

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

v) **Pensions**

i *Defined benefit schemes*

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii *Defined contribution schemes*

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

1. Accounting policies (continued)

v) **New standards, amendments and interpretations not yet adopted**

At the date of approval of these financial statements the following Standards were in issue but not yet effective:

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. This Standard has not yet been endorsed by the EU.

IFRS 15 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. Key assumptions and significant judgments

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

i *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the period-end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.6 million).

ii *Bad debts*

For Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to judgment.

iii *Complex supplier arrangements*

Anglian Water has a collaborative arrangement with six of its contractors, known as the @oneAlliance, which was formed to deliver a significant part of the Anglian Water capital investment programme. Whilst each partner has a separate framework agreement with Anglian Water, a gainshare payment scheme is operated on a programme pool basis to reward partners for outperformance. According to the contract, the gainshare payment is payable on completion of each scheme to the value of outturn measured against target cost. This value is divided between Anglian Water and the six partners in bandings relating to the percentage of outperformance as per the contract.

To calculate the liability of each partner's share to date, value of work done is defined by measuring cost to date against the forecast final outturn. This is then applied to the forecast final gainshare position to define the value of gainshare earned to date. Gainshare payments are made annually.

iv *Pensions*

The group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under IAS 19 'Employee Benefits' the group has recognised a pension deficit of £45.9 million (2014: £71.6 million). The main assumptions are set out in note 25 of the financial statements.

v *Goodwill impairment*

Goodwill is tested annually for impairment based on a fair value less cost to sell methodology. In performing these tests assumptions are made in respect of both the multiple of Regulatory Capital Value (RCV) with reference to the recent transactions that have taken place in the sector and the market value of the listed companies in the sector (see note 13).

vi *Property, plant and equipment*

The property, plant and equipment used in the group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

2. Key assumptions and significant judgments (continued)

vii *Financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The group uses its judgement to select the most appropriate valuation method for each instrument to estimate expected future cash flows, and apply discount rates that reflect counterparty credit risk. The valuation techniques are described in detail in note 22.

viii *Taxation*

The group's tax charge is based on the profit for the period and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities.

3. Segmental information

By class of business for the year ended 31 March 2015

At 31 March 2015 the group was organised into the following main businesses:

- Anglian Water; regulated water, water recycling and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- Property; commercial and residential property developer.
- Head Office and Other; comprises head office, and Celtic Anglian Water, a joint venture which operates wastewater treatment works in the Republic of Ireland.

No operating segments have been aggregated to form the above reportable operating segments.

The Directors consider the Board to be the group's chief operating decision maker in relation to segment reporting in accordance with IFRS 8 'Operating Segments'. Segmental performance is evaluated based on both profit and loss and cash flows, see tables below. Segmental assets and liabilities do not form part of the Board's performance assessment and, as such, are not included in the segmental information.

Inter-segment revenues and profits are fully eliminated on consolidation and are shown separately in the following tables.

	Anglian Water £m	Property £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue					
External	1,243.9	10.1	-	-	**1,254.0**
Inter segment	0.4	0.3	-	(0.3)	**0.4**
	1,244.3	**10.4**	**-**	**(0.3)**	**1,254.4**
Segment result					
EBITDA (earnings before interest, tax, depreciation and amortisation)	720.4	(8.5)	(7.2)	-	**704.7**
Other operating income	12.9	-	-	-	**12.9**
Depreciation and amortisation	(280.7)	(0.1)	(0.1)	-	**(280.9)**
Share of joint ventures operating profit	-	0.9	1.7	-	**2.6**
	452.6	**(7.7)**	**(5.6)**	**-**	**439.3**
Cash flows					
Operating cash flow	708.1	(5.7)	(12.0)	-	**690.4**
Capital expenditure net of grants received	(358.3)	(1.5)	(0.2)	-	**(360.0)**
Net debt	(5,649.2)	(118.0)	(1,245.5)	-	**(7,012.7)**

See page 59 for reconciliation of segmental information.

3. **Segmental analysis** (continued)

By class of business for the year ended 31 March 2014

	Anglian Water £m	Property £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue					
External	1,213.6	8.6	-	-	**1,222.2**
Inter segment	0.4	0.2	-	(0.2)	**0.4**
	1,214.0	**8.8**	**-**	**(0.2)**	**1,222.6**
Segment result					
EBITDA (earnings before interest, tax, depreciation and amortisation)	728.6	(9.1)	(7.4)	(0.3)	**711.8**
Other operating income	12.3	-	-	-	**12.3**
Depreciation and amortisation	(272.0)	(0.1)	-	-	**(272.1)**
Share of joint ventures operating profit	-	1.7	2.7	-	**4.4**
	468.9	**(7.5)**	**(4.7)**	**(0.3)**	**456.4**
Cash flows					
Operating cash flow	691.9	(9.8)	(12.8)	-	**669.3**
Capital expenditure net of grants received	(399.7)	(0.7)	(0.1)	(0.3)	**(400.8)**
Net debt	(5,512.5)	(112.9)	(1,274.4)	-	**(6,899.8)**

See page 59 for reconciliation of segmental information.

3. Segmental analysis (continued)

Reconciliation of segmental information

	2015 £m	2014 £m
Segment result	**439.3**	456.4
Fair value losses on energy hedges	**(0.8)**	(5.4)
Exceptional operating costs	**(6.9)**	-
Finance income	**6.0**	5.6
Finance costs	**(311.6)**	(330.6)
Fair value (losses)/gains on derivative financial instruments	**(208.5)**	91.0
Share of joint ventures interest payable	**(1.4)**	(1.5)
Share of joint ventures tax	**(0.2)**	(0.3)
(Loss)/profit before tax from continuing operations	**(84.1)**	215.2
Total operating cash flow by segment	**690.4**	669.3
Dividends received from joint ventures	**1.6**	1.8
Income taxes paid	**(10.6)**	(11.8)
Net cash flows from operating activities	**681.4**	659.3
Purchase of property, plant and equipment	**(345.6)**	(402.7)
Purchase of intangible assets	**(51.8)**	(28.3)
Grants and contributions received	**32.8**	28.8
Proceeds from sale of property, plant and equipment	**4.6**	1.4
Capital expenditure spend by segment	**(360.0)**	(400.8)
Cash and cash equivalents	**703.5**	649.3
Cash deposits	**112.0**	80.9
Borrowings due within one year	**(1,105.4)**	(907.8)
Borrowings due after more than one year	**(6,722.8)**	(6,722.2)
Net debt by segment	**(7,012.7)**	(6,899.8)
Derivative financial instruments	**(749.8)**	(497.5)
Net debt	**(7,762.5)**	(7,397.3)

By geographical segment

	2015 £m	2014 £m
Turnover		
United Kingdom	**1,254.4**	1,222.6
Other countries	**-**	-
	1,254.4	1,222.6
Segment result		
United Kingdom	**437.6**	454.0
Other countries	**1.7**	2.4
	439.3	456.4
Non-current assets		
United Kingdom	**10,125.6**	9,957.1
Other countries	**3.5**	4.2
	10,129.1	9,961.3

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

4. Revenue

	2015 £m	2014 £m
Water and sewerage services	**1,244.3**	1,214.0
Other services	**-**	-
Property revenue	**10.1**	8.6
	1,254.4	1,222.6

5. Other operating income

Other operating income comprises the amortisation of grants and contributions.

6. Operating costs

	2015 £m	2014 £m
Raw materials and consumables	**18.1**	17.1
Staff costs (see note 10)	**186.4**	176.5
Charge for bad and doubtful debts	**33.1**	32.4
Operating lease rentals		
Properties	**10.5**	9.0
Plant and equipment	**0.5**	0.5
Research and development expenditure	**0.9**	0.1
Other operating costs	**351.8**	323.2
Own work capitalised	**(50.1)**	(47.1)
Profit on sale of fixed assets [1]	**(1.5)**	(0.9)
Operating costs before depreciation and amortisation	**549.7**	510.8
Depreciation of property, plant and equipment	**256.3**	250.8
Amortisation of intangible assets	**24.6**	21.3
Depreciation and amortisation	**280.9**	272.1
Fair value losses on energy hedges	**0.8**	5.4
Exceptional operating costs	**6.9**	-
Operating costs	**838.3**	788.3

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

During the year the group obtained the following services from the company's auditors:

	2015 £m	2014 £m
Fees payable to the company's auditors for the audit of the company and the consolidated financial statements	**-**	-
Fees payable to the company's auditors for other services		
The audit of the company's subsidiaries	**0.3**	0.3
Audit-related assurance services	**0.1**	0.1
Other taxation advisory services	**0.1**	-
Other assurance services	**-**	0.1
Other non-audit services	**0.4**	0.3
	0.9	0.8

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat, and review of the group’s half-year results. Other assurance services relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to pensions, IFRS, tax advice and, in the prior year, advisory work in relation to the business plan for 2015-2020.

7. Exceptional items

	2015 £m	2014 £m
Exceptional operating costs		
Property costs	**(6.9)**	-

Property costs:
AWG Property has historically invested in a number of commercial joint ventures, through the provision of loans subordinated to external bank funding. The recovery of these loans is at least partly dependent on sufficient time period being available to maximise the recoverable value. A significant proportion of this third party off balance sheet bank funding has a final maturity date of 31 March 2016 and as the group does not have sufficient confidence that these loans will be extended beyond 31 March 2016 on acceptable terms, and reflecting the current independent valuation of these properties, £4.9 million has been written off the amount recoverable from the joint ventures. In addition, AWG Property incurred a loss of £2.0 million on the early disposal, in order to mitigate future cash outflows, of two of its properties.

8. Net finance costs

	2015 £m	2014 £m
Finance income		
Interest income on short-term bank deposits	**6.0**	5.6
Finance costs		
Interest payable on bank loans and overdrafts	**(0.9)**	(0.7)
Interest payable on other loans including financing expenses	**(264.4)**	(265.7)
Indexation	**(72.1)**	(98.6)
Amortisation of issue costs	**(4.9)**	(4.9)
Interest payable on finance leases	**(1.6)**	(1.9)
Amortisation of fair value adjustments	**17.2**	21.3
Unwinding of discount on onerous lease obligation provision	**(1.0)**	(0.7)
Defined benefit pension scheme interest charge	**(2.5)**	(3.7)
Total finance costs	**(330.2)**	(354.9)
Less: amounts capitalised on qualifying assets	**18.6**	24.3
	(311.6)	(330.6)
Fair value (losses)/gains on derivative financial instruments		
Hedge ineffectiveness on cash flow hedges	**(0.6)**	0.1
Hedge ineffectiveness on fair value hedges	**1.8**	(0.7)
Restructuring costs on derivatives	**(4.8)**	-
Derivative financial instruments not designated as hedges	**(204.9)**	91.6
	(208.5)	91.0
Net finance costs	**(514.1)**	(234.0)

9. Taxation

	2015 **£m**	2014 £m
Current tax:		
In respect of the current year	**9.5**	11.6
Adjustments in respect of prior periods	**-**	(0.2)
Total current tax charge	**9.5**	11.4
Deferred tax:		
Origination and reversal of temporary differences	**(23.2)**	41.8
Adjustments in respect of prior periods	**(19.3)**	(3.6)
Reduction in corporation tax rate	**-**	(185.5)
Total deferred tax credit	**(42.5)**	(147.3)
Total tax credit on profit on continuing operations	**(33.0)**	(135.9)

The current tax adjustment in respect of previous periods relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of previous periods, for both 2015 and 2014, relate to adjustments to prior year capital allowance claims.

The prior year reduction in corporation tax rate reflects the change in the UK corporation tax rate from 23% to 21% that was effective from 1 April 2014, and to 20% from 1 April 2015, resulting in all relevant deferred tax balances being re-measured.

The tax credit on the group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 21% (2014: 23%) to the (loss)/profit before tax from continuing operations as follows:

	2015 **£m**	2014 £m
(Loss)/profit before tax from continuing operations	**(84.1)**	215.2
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 21% (2014: 23%)	**(17.7)**	49.5
Effects of:		
Items not deductible for tax purposes	**4.5**	4.8
Items not taxable	**(0.3)**	(0.3)
Reduction in corporation tax rate	**-**	(185.5)
Difference in foreign tax rates	**-**	(0.3)
Joint ventures results reported net of tax	**(0.2)**	(0.3)
Adjustments in respect of prior periods	**(19.3)**	(3.8)
Tax credit for the year	**(33.0)**	(135.9)

9. Taxation (continued)

In addition to the tax credited to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

	2015 **£m**	2014 £m
Current tax:		
Defined benefit pension schemes	**-**	(1.2)
Total current tax credit	**-**	(1.2)
Deferred tax:		
Defined benefit pension schemes	**(0.3)**	2.7
Cash flow hedges	**(14.6)**	2.5
Reduction in corporation tax rate	**-**	1.6
Total deferred tax (credit)/charge	**(14.9)**	6.8
Total tax (credit)/charge recognised in other comprehensive income	**(14.9)**	5.6

The current tax credited to other comprehensive income relates to tax relief on pension contributions that were in excess of the pension costs charged to the income statement.

10. Employee information and Directors' emoluments

a) Employee information

	2015 £m	2014 £m
Staff costs		
Wages and salaries	**156.6**	147.3
Social security costs	**14.5**	13.6
Pension costs - defined contribution (see note 25)	**6.4**	5.8
Pension costs - defined benefit (see note 25)	**8.9**	9.8
	186.4	176.5

Staff costs for the year ended 31 March 2015 include £48.6 million (2014: £45.1 million) of costs that have been capitalised within 'own work capitalised'.

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

	2015	2014
Anglian Water	**4,188**	4,066
AWG Property	**10**	11
Other	**26**	27
	4,224	4,104

The company
The company has no employees (2014: none).

b) Directors' emoluments

	2015 £'000	2014 £'000
Aggregate emoluments	**2,339**	2,250
Pension costs – defined contribution	**11**	10
Benefits received under long-term incentive plans	**748**	976

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2014: one) under defined benefit schemes and two Directors (2014: two) under money purchase schemes.

	2015 £'000	2014 £'000
Highest paid director		
Aggregate emoluments	**1,001**	963
Pension costs – defined contribution	**6**	6
Benefits received under long-term incentive plans	**374**	488

11. Profit of the parent company

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, is £86.2 million (2014: £140.3 million).

12. Dividends

Interim dividends paid during the year

	2015 £m	2014 £m
Paid on:		
10 December 2014	**35.0**	-
10 June 2014	**56.5**	-
10 December 2013	**-**	80.1
10 June 2013	**-**	58.7
	91.5	138.8

In addition, a first interim dividend of £30.7 million in respect of the year ended 31 March 2016 was approved by the Board on 4 June 2015 and was paid on 10 June 2015. This dividend has not been included as a liability at 31 March 2015.

13. Goodwill

	2015 £m	2014 £m
Cost		
At the start of the year and at 31 March	**935.4**	935.4
Accumulated impairment		
At the start of the year and at 31 March	**(489.6)**	(489.6)
Net book amount		
At 31 March	**445.8**	445.8

On transition to reporting under International Financial Reporting Standards (IFRS) the group, in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', elected not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations. Accordingly, the carrying amount of goodwill in accordance with previous GAAP at the date of transition, £935.4 million, has been treated as the deemed cost of goodwill under IFRS.

An impairment review, on the basis set out below, was undertaken at the date of transition. As a consequence of the decision to measure the infrastructure and operational assets of Anglian Water at their fair value (see note 33), which increased net assets by £2,560.2 million, net of deferred tax, an impairment to goodwill of £489.6 million was charged to retained earnings on transition. The net impact of the fair valuing of the infrastructure and operational assets of Anglian Water, less the reversal of the outstanding unamortised fair value adjustment and the associated impairment of the goodwill, was to increase net assets by £1,369.0 million at 1 April 2013.

Impairment testing of goodwill

All goodwill is allocated to the Anglian Water business segment, the group's UK regulated water, water recycling and environmental service provider. The recoverable amount of the Anglian Water segment is determined based on a fair value less cost to sell methodology. This calculation uses a multiple of Regulatory Capital Value (RCV) with reference to the recent transactions that have taken place in the sector and the market value of the listed companies in the sector. The basis applied has been deemed appropriate as it is consistent with the economic value as assessed by management and other market participants.

The current comparable transactions in the sector indicate that current multiples are 1.25x although these have been between 1.20x and 1.4x RCV in recent years. The implied multiples for the listed companies are also around 1.25x based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x for 2014/15, results in headroom of £210 million (2013/14: 1.25x, £250 million). The headroom for 2014/15 is eliminated at an RCV multiple of 1.22x (2013/14: 1.21x). The above multiples have been applied to the RCV after adjusting for £345 million of AMP5 outperformance and logging adjustments, as this is the RCV used by Ofwat to set the determination for the AMP6 period (2015-20).

Goodwill is also assessed using forecast discounted cash flows which also demonstrates that there is headroom above the carrying value.

At 31 March 2013 the carrying value of goodwill was impaired to £445.8 million as a transition adjustment following the revaluation of the infrastructure and operational assets of Anglian Water as deemed cost (see note 33).

14. Other intangible assets

	Computer software £m	Internally generated £m	Total £m
Cost			
At 1 April 2013	287.2	77.8	**365.0**
Additions	19.6	11.1	**30.7**
Disposals	(3.3)	-	**(3.3)**
At 31 March 2014	303.5	88.9	**392.4**
Additions	37.3	18.6	**55.9**
At 31 March 2015	**340.8**	**107.5**	**448.3**
Accumulated amortisation			
At 1 April 2013	(231.3)	(57.4)	**(288.7)**
Charge for the year	(14.4)	(6.9)	**(21.3)**
Disposals	3.3	-	**3.3**
At 31 March 2014	(242.4)	(64.3)	**(306.7)**
Charge for the year	(16.2)	(8.4)	**(24.6)**
At 31 March 2015	**(258.6)**	**(72.7)**	**(331.3)**
Net book amount			
At 31 March 2015	**82.2**	**34.8**	**117.0**
At 31 March 2014	61.1	24.6	85.7

Internally generated intangible assets mainly comprise capitalised development expenditure.

The company

The company has no intangible assets (2014: none).

15. Property, plant and equipment

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2013	46.9	6,101.4	4,856.7	717.5	470.0	**12,192.5**
Additions	0.7	-	-	-	407.2	**407.9**
Transfers on commissioning	0.7	105.3	265.1	68.9	(440.0)	**-**
Disposals	-	-	(0.1)	(16.9)	-	**(17.0)**
At 31 March 2014	**48.3**	**6,206.7**	**5,121.7**	**769.5**	**437.2**	12,583.4
Additions	5.5	-	-	-	370.8	**376.3**
Transfers on commissioning	1.0	148.2	240.2	50.0	(439.4)	**-**
Disposals	(2.7)	-	(2.2)	(9.7)	-	**(14.6)**
At 31 March 2015	**52.1**	**6,354.9**	**5,359.7**	**809.8**	**368.6**	**12,945.1**
Accumulated depreciation						
At 1 April 2013	(6.3)	(408.0)	(2,091.4)	(506.2)	-	**(3,011.9)**
Charge for the year	(0.4)	(50.7)	(160.6)	(39.1)	-	**(250.8)**
Disposals	-	-	0.1	16.8	-	**16.9**
At 31 March 2014	**(6.7)**	**(458.7)**	**(2,251.9)**	**(528.5)**	**-**	(3,245.8)
Charge for the year	(0.5)	(51.6)	(162.6)	(41.6)	-	**(256.3)**
Disposals	0.6	-	1.9	9.4	-	**11.9**
At 31 March 2015	**(6.6)**	**(510.3)**	**(2,412.6)**	**(560.7)**	**-**	**(3,490.2)**
Net book amount						
At 31 March 2015	**45.5**	**5,844.6**	**2,947.1**	**249.1**	**368.6**	**9,454.9**
At 31 March 2014	**41.6**	**5,748.0**	**2,869.8**	**241.0**	**437.2**	**9,337.6**

Property, plant and equipment at 31 March 2015 includes land of £27.1 million (2014: £25.6 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Included within additions above is £18.6 million (2014: £24.3 million) of interest that has been capitalised on qualifying assets.

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', the group has elected to measure the infrastructure and operational assets of Anglian Water at 1 April 2013, being the date of transition to IFRS, at their fair value and to use that fair value as their deemed cost at that date (see note 33).

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases, the majority of which is included in operational assets:

	2015 £m	2014 £m
Net book amount at 31 March	**54.4**	57.9

The company

The company has no property, plant and equipment (2014: none).

16. Investment properties

	2015 **£m**	2014 £m
Cost		
At the start of the year and at 31 March	**2.6**	2.6
Accumulated amortisation		
At the start of the year and at 31 March	**(0.6)**	(0.6)
Net book amount		
At 31 March	**2.0**	2.0

Investment properties are accounted for using the cost model, in line with the accounting policy for property, plant and equipment.

The fair value of investment properties is not materially different from their book value.

The company

The company has no investment properties (2014: none).

17. Investments

			Group
	2015 **£m**	2014 £m	2013 £m
Non-current			
Joint ventures	**3.5**	4.1	3.6
	3.5	4.1	3.6
Current			
Cash deposits	**112.0**	80.9	129.0
	112.0	80.9	129.0

			Company
	2015 **£m**	2014 £m	2013 £m
Non-current			
Subsidiary undertakings	**2,311.8**	2,311.8	2,311.8
	2,311.8	2,311.8	2,311.8
Current			
Cash deposits	**-**	12.5	12.1
	-	12.5	12.1

17. Investments (continued)

a) Joint ventures

	2015 £m	2014 £m
The group		
At the start of the year	**4.1**	3.6
Profit for the year	**1.0**	2.6
Dividends paid	**(1.6)**	(1.8)
Amounts offset against trade balances	**0.5**	(0.2)
Redemption of preference shares	**-**	(0.5)
Transfer to provisions (see note 23)	**-**	0.5
Exchange adjustments	**(0.5)**	(0.1)
At 31 March	**3.5**	4.1

The result for the year of joint ventures arises from continuing operations and is stated after operating profits of £2.6 million (2014: £4.4 million), less interest payable of £1.4 million (2014: £1.5 million) and tax of £0.2 million (2014: £0.3 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2015, none of which are material to the group.

Undertaking	Country of incorporation	Activity	Proportion of shares held
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment	50%
Property joint ventures:			
Excel Centre Aberdeen Limited	Scotland	Property development	50%
Shawlands Retail Limited	Scotland	Property development	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Osprey Acquisitions Limited.

The accounting year-end for the above undertakings is 31 March, with the exception of Excel Centre Aberdeen Limited which has a year-end of 31 May. The class of shares held is ordinary shares of £1 each, except for Celtic Anglian Water Limited which has ordinary shares of €1.27 each.

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has issued guarantees of £6.6 million (2014: £7.2 million) in relation to its joint ventures.

17. Investments (continued)

b) Subsidiary undertakings

	Shares in subsidiary undertakings £m
The company	
Cost	
At 1 April 2013, at 31 March 2014 and at 31 March 2015	**2,311.8**

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

Subsidiary undertakings are listed in note 34.

18. Inventories

			Group
	2015 £m	2014 £m	2013 £m
Raw materials and consumables	**8.9**	10.7	9.9
Work in progress	**11.9**	14.9	14.6
	20.8	25.6	24.5

The company

The company has no inventories (2014: none).

19. Trade and other receivables

			Group
	2015	2014	2013
	£m	£m	£m
Trade receivables	**422.1**	397.2	371.9
Provision for impairment	**(197.3)**	(190.5)	(178.6)
Net trade receivables	**224.8**	206.7	193.3
Loans receivable from group undertakings	**0.3**	0.8	0.3
Amounts receivable from joint ventures			
Trade balances	**0.9**	1.0	0.6
Loans	**4.2**	9.8	11.4
Other amounts receivable	**16.9**	11.0	15.4
Prepayments and accrued income	**276.2**	266.9	255.9
	523.3	496.2	476.9

			Company
	2015	2014	2013
	£m	£m	£m
Prepayments and accrued income	**1.3**	-	0.1
	1.3	-	0.1

Prepayments and accrued income as at 31 March 2015 includes water and sewerage income not yet billed of £262.3 million (2014: £254.7 million).

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The group manages its risk from trading through the effective management of customer relationships. By far the most significant business unit of the group is Anglian Water Services, which represents 98% of the group's revenue and 98% of its net trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Anglian Water Services customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables. None of the other business units are individually significant to the group.

The movement on the doubtful debts provision, all of which relates to trade receivables, was as follows:

		Group
	2015	2014
	£m	£m
Provision at start of year	**190.5**	178.6
Charge for bad and doubtful debts	**33.1**	32.4
Amounts written off during the year	**(26.3)**	(20.5)
At 31 March	**197.3**	190.5

Included in trade receivables are balances with a carrying amount of £143.2 million (2014: £142.2 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances.

19. Trade and other receivables (continued)

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	Group	
	2015	2014
	£m	£m
Within one year	**103.9**	104.4
Within one to two years	**19.8**	19.5
Within two to three years	**9.5**	9.7
Within three to four years	**4.4**	4.1
After four years	**5.6**	4.5
	143.2	142.2

Included in the provision for impairment of trade receivables are provisions of £0.3 million (2014: £0.3 million) against specific trade receivables. The age of the impaired receivables was as follows:

	Group	
	2015	2014
	£m	£m
After four years	**0.3**	0.3
	0.3	0.3

20. Trade and other payables

	Group		
	2015	2014	2013
	£m	£m	£m
Current			
Trade payables	**145.7**	128.0	169.6
Receipts in advance	**251.3**	223.9	205.3
Amounts owed to joint ventures	**-**	-	1.0
Other taxes and social security	**3.8**	3.5	3.7
Accruals and deferred income	**61.9**	58.8	56.1
Other payables	**10.0**	5.0	4.7
Deferred grants and contributions	**12.8**	12.4	11.9
	485.5	431.6	452.3
Non-current			
Other payables	**6.0**	2.4	2.4
Deferred grants and contributions	**416.1**	388.1	357.9
	422.1	390.5	360.3

	Company		
	2015	2014	2013
	£m	£m	£m
Current			
Accruals and deferred income	**0.2**	-	-
	0.2	-	-

Receipts in advance includes £224.5 million (2014: £201.2 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

The directors consider that the carrying values of trade and other payables is not materially different from their fair values.

21. Loans and other borrowings

				Group
	Notes	**2015** **£m**	2014 £m	2013 £m
£100 million 12.375% fixed rate 2014	d f	**-**	-	106.3
£250 million 5.837% fixed rate 2022	d f	**268.0**	269.2	270.3
£200 million 6.875% fixed rate 2023	d f	**225.4**	227.5	229.5
£200 million 6.625% fixed rate 2029	d f	**220.7**	222.0	223.2
£246 million 6.293% fixed rate 2030	d f	**278.9**	280.4	281.9
£250 million 5.25% fixed rate 2015	b d f h	**261.8**	271.4	283.0
£150 million 5.5% fixed rate 2017/2040 (1)	b d e f	**160.9**	161.8	166.5
£150 million 4.125% index-linked 2020	c d f	**250.4**	248.3	244.9
£75 million 3.666% index-linked 2024	c d f	**122.8**	121.6	119.7
£200 million 3.07% index-linked 2032	c d f	**344.7**	341.0	335.5
£60 million 3.07% index-linked 2032	c d f	**104.5**	103.4	101.7
Finance leases	b d f h	**42.9**	52.0	56.0
€650 million 4.625% fixed rate bond 2013	a b d f	**-**	-	570.6
£402 million 2.4% index-linked 2035	c d f	**565.7**	555.4	541.9
£50 million 1.7% index-linked 2046	c d f	**74.2**	73.1	71.5
£50 million 1.7% index-linked 2046	c d f	**74.4**	73.3	71.8
£40 million 1.7146% indexation bond 2056	c d f	**62.2**	61.2	60.0
£50 million 1.6777% indexation bond 2056	c d f	**77.1**	75.9	74.3
£60 million 1.7903% indexation bond 2049	c d f	**92.3**	90.9	89.1
£100 million 1.3784% indexation bond 2057	c d f	**132.4**	129.5	126.1
£50 million 1.3825% indexation bond 2056	c d f	**66.1**	64.7	63.0
£100 million Class A wrapped floating rate bonds	d f	**100.0**	100.0	100.0
£75 million 1.449% indexation bond 2062	c d f	**94.7**	92.4	89.7
£50 million 1.52% indexation bond 2055	c d f	**63.0**	61.5	59.8
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	**87.2**	87.3	107.0
£110 million Class A unwrapped floating rate bonds 2043	d f	**110.1**	110.1	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	a b d f	**29.7**	31.1	37.9
€500 million 6.25% fixed rate bond 2016	a d f	**379.0**	431.7	440.9
£25 million 6.875% private placements 2034	d f	**24.9**	24.9	24.9
£100 million Class B 6.75% fixed rate bond 2024 (2)	d f h	**-**	62.1	61.4
EIB £50 million 1.626% index-linked term facility 2019	c d f	**60.5**	59.5	57.9
EIB £50 million 1.3% index-linked term facility 2020	c f	**59.6**	58.7	57.0
£130 million 2.262% indexation bond 2045	c d f	**151.6**	149.3	145.0
US$160 million 4.52% private placements 2021	a b d f	**120.7**	104.5	121.6
US$410 million 5.18% private placements 2021	a b d f	**284.4**	245.0	279.0
EIB £75 million 0.53% index-linked term facility 2027 (3)	c d f	**81.0**	79.7	77.5
EIB £75 million 0.79% index-linked term facility 2027 (3)	c d f	**81.0**	79.7	77.5
£250 million 4.5% fixed rate 2027	d f	**251.4**	251.2	251.0
£15 million 1.37% index-linked private placements 2022	c d f	**15.8**	15.7	15.2
£50 million 2.05% index-linked private placements 2033	c d f	**53.1**	52.5	51.0
£25.5 million 4.195% private placements 2017	d f	**25.9**	25.9	25.8
£31.9 million 3.983% private placements 2022	d f	**32.3**	32.3	32.3
£73.3 million 4.394% private placements 2028	d f	**74.7**	74.7	74.7
£22.3 million 3.983% private placements 2022	d f	**22.6**	22.5	22.6
US$47 million 5% private placements 2022	a b d f	**32.3**	28.7	31.6
EIB £150 million 0% index-linked term facility 2028 (4)	c d f	**157.3**	154.8	150.5
£200 million Class B 4.5% fixed rate 2026	b d f	**204.6**	191.9	199.1
£35 million 1.141% index-linked bond 2042	c d f	**36.3**	35.7	-
US$170 million 3.84% private placements 2023	a b d f	**123.1**	103.4	-
£93 million 3.537% private placements 2023	d f	**94.0**	94.0	-
Sub-total carried forward		**6,276.2**	6,283.4	6,787.8

21. Loans and other borrowings (continued)

	Notes	2015 £m	2014 £m	2013 £m
				Group
Sub-total brought forward		**6,276.2**	6,283.4	6,787.8
US$160 million 4.99% private placements 2023	a b d f	**109.0**	96.7	-
EIB £65 million 0.41% index-linked term facility 2029 (5)	c d f	**66.0**	65.0	-
EIB £125 million 0.1% index-linked term facility 2029 (6)	c f	**125.8**	-	-
EIB £60 million 0.01% index-linked term facility 2030 (6)	c f	**60.1**	-	-
£100 million term facility	b d g	**98.2**	98.3	97.3
£350 million Class B 7.0% fixed rate bond 2018	d g	**361.8**	349.6	348.8
Loan notes	h	**0.8**	0.9	1.4
£729 million interest free loan (7)		**728.8**	728.8	728.8
Other loans	h	**1.5**	7.3	7.0
Total loans and other borrowings		**7,828.2**	7,630.0	7,971.1
Included in:				
Current liabilities		**1,105.4**	907.8	1,516.4
Non-current liabilities		**6,722.8**	6,722.2	6,454.7

	Notes	2015 £m	2014 £m	2013 £m
				Company
£100 million term facility	b d g	**98.2**	98.3	97.3
£350 million Class B 7.0% fixed rate bond 2018	d g	**361.8**	349.6	348.8
Loan notes	h	**0.8**	0.9	1.4
£729 million interest free loan (7)		**728.8**	728.8	728.8
Total loans and other borrowings		**1,189.6**	1,177.6	1,176.3
Included in:				
Current liabilities		**744.8**	733.9	734.5
Non-current liabilities		**444.8**	443.7	441.8

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

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

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

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

(5) This instrument is amortising from 2019 until the date of maturity shown.

(6) These instruments are amortising from 2020 until the date of maturity shown.

(7) This loan is due to the immediate parent undertaking.

21. Loans and other borrowings (continued)

(a) The group has entered into swap agreements to hedge the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings.

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy.

(c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index. The increase in the capital value of index-linked loans during the year of £55.1 million (2014: £73.1 million) has been taken to the income statement as part of interest payable.

(d) These loans are shown net of issue costs of £38.4 million (2014 £39.6 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

(e) Legal maturity of these instruments is the second of the two years quoted. Coupon 'step-up' is in the first of the years quoted in accordance with the pricing terms agreed at issue.

(f) A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2015 this charge applies to £6,637.1 million (2014: £6,445.1 million) of the debt listed above.

(g) A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2015 this charge applies to £460.0 million (2014: £447.9 million) of the debt listed above.

(h) Amounts repayable wholly or partly within one year.

22. Financial instruments

Financial assets by category

	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held to maturity investments £m	Total £m
At 31 March 2015					
Investments					
Current	-	-	-	112.0	**112.0**
Cash and cash equivalents					
Current	-	-	703.5	-	**703.5**
Trade and other receivables					
Current	-	-	250.6	-	**250.6**
Derivative financial instruments					
Current	2.0	34.9	-	-	**36.9**
Non-current	11.3	94.6	-	-	**105.9**
	13.3	**129.5**	**954.1**	**112.0**	**1,208.9**
At 31 March 2014					
Investments					
Current	-	-	-	80.9	80.9
Cash and cash equivalents					
Current	-	-	649.3	-	649.3
Trade and other receivables					
Current	-	-	231.7	-	231.7
Derivative financial instruments					
Current	2.1	30.3	-	-	32.4
Non-current	12.1	74.0	-	-	86.1
	14.2	104.3	881.0	80.9	1,080.4
At 1 April 2013					
Investments					
Current	-	-	-	129.0	129.0
Cash and cash equivalents					
Current	-	-	1,001.9	-	1,001.9
Trade and other receivables					
Current	-	-	224.7	-	224.7
Derivative financial instruments					
Current	2.5	144.6	-	-	147.1
Non-current	21.8	138.2	-	-	160.0
	24.3	282.8	1,226.6	129.0	1,662.7

Trade and other receivables above exclude prepayments and accrued income.

22. Financial instruments

Financial assets by category – The company

	Assets at fair value through profit and loss £m	Loans and receivables £m	Held to maturity investments £m	Total £m
At 31 March 2015				
Investments				
Non-current	-	-	2,311.8	**2,311.8**
Cash and cash equivalents				
Current	-	22.6	-	**22.6**
Current tax receivables				
Current	-	10.8	-	**10.8**
Derivative financial instruments				
Current	2.0	-	-	**2.0**
Non-current	11.3	-	-	**11.3**
	13.3	**33.4**	**2,311.8**	**2,358.5**
At 31 March 2014				
Investments				
Current	-	-	12.5	12.5
Non-current	-	-	2,311.8	2,311.8
Cash and cash equivalents				
Current	-	9.4	-	9.4
Current tax receivables				
Current	-	9.4	-	9.4
Derivative financial instruments				
Current	2.0	-	-	2.0
Non-current	12.1	-	-	12.1
	14.1	18.8	2,324.3	2,357.2
At 1 April 2013				
Investments				
Current	-	-	12.1	12.1
Non-current	-	-	2,311.8	2,311.8
Cash and cash equivalents				
Current	-	9.7	-	9.7
Current tax receivables				
Current	-	9.7	-	9.7
Derivative financial instruments				
Current	1.9	-	-	1.9
Non-current	21.8	-	-	21.8
	23.7	19.4	2,323.9	2,367.0

22. Financial instruments (continued)

Financial liabilities by category

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2015				
Borrowings				
Current	-	-	1,105.4	**1,105.4**
Non-current	-	-	6,722.8	**6,722.8**
Trade and other payables				
Current	-	-	472.7	**472.7**
Non-current	-	-	6.0	**6.0**
Derivative financial instruments				
Current	13.8	2.6	-	**16.4**
Non-current	760.5	137.1	-	**897.6**
	774.3	**139.7**	**8,306.9**	**9,220.9**
At 31 March 2014				
Borrowings				
Current	-	-	907.8	907.8
Non-current	-	-	6,722.2	6,722.2
Trade and other payables				
Current	-	-	419.2	419.2
Non-current	-	-	2.4	2.4
Derivative financial instruments				
Current	16.1	2.9	-	19.0
Non-current	535.1	73.9	-	609.0
	551.2	76.8	8,051.6	8,679.6
At 1 April 2013				
Borrowings				
Current	-	-	1,516.4	1,516.4
Non-current	-	-	6,454.7	6,454.7
Trade and other payables				
Current	-	-	440.4	440.4
Non-current	-	-	2.4	2.4
Derivative financial instruments				
Current	115.8	2.1	-	117.9
Non-current	603.7	27.6	-	631.3
	719.5	29.7	8,413.9	9,163.1

22. Financial instruments (continued)

Financial liabilities by category – The company

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2015				
Borrowings				
Current	-	-	744.8	**744.8**
Non-current	-	-	444.8	**444.8**
Trade and other payables				
Current	-	-	0.2	**0.2**
Derivative financial instruments				
Current	3.8	1.6	-	**5.4**
Non-current	21.2	9.4	-	**30.6**
	25.0	**11.0**	**1,189.8**	**1,225.8**
At 31 March 2014				
Borrowings				
Current	-	-	733.9	733.9
Non-current	-	-	443.7	443.7
Derivative financial instruments				
Current	3.8	1.6	-	5.4
Non-current	26.2	11.7	-	37.9
	30.0	13.3	1,177.6	1,220.9
At 1 April 2013				
Borrowings				
Current	-	-	734.5	734.5
Non-current	-	-	441.8	441.8
Derivative financial instruments				
Current	3.5	1.6	-	5.1
Non-current	40.6	18.1	-	58.7
	44.1	19.7	1,176.3	1,240.1

22. Financial instruments (continued)

Derivative financial instruments

			Group
	2015	2014	2013
	£m	£m	£m
Financial assets			
Designated as cash flow hedges			
Cross currency interest rate swaps	**22.6**	38.1	30.9
	22.6	38.1	30.9
Designated as fair value hedges			
Interest rate swaps	**26.6**	31.3	49.2
Cross currency interest rate swaps	**80.3**	34.9	202.7
	106.9	66.2	251.9
Derivative financial instruments designated as hedges	**129.5**	104.3	282.8
Derivative financial instruments not designated as hedges:			
Interest rate swaps and swaptions	**13.3**	14.2	23.8
Energy swaps	**-**	-	0.5
Total derivative financial instruments	**142.8**	118.5	307.1
Derivative financial instruments can be analysed as follows:			
Current	**36.9**	32.4	147.1
Non-current	**105.9**	86.1	160.0
	142.8	118.5	307.1

			Group
	2015	2014	2013
	£m	£m	£m
Financial liabilities			
Designated as cash flow hedges			
Interest rate swaps	**(91.6)**	(28.1)	(27.8)
Cross currency interest rate swaps	**(34.7)**	(16.1)	(1.9)
Energy swaps	**(13.4)**	(4.9)	-
	(139.7)	(49.1)	(29.7)
Designated as fair value hedges			
Interest rate swaps	**-**	(5.7)	-
Cross currency interest rate swaps	**-**	(22.0)	-
	-	(27.7)	-
Derivative financial instruments designated as hedges	**(139.7)**	(76.8)	(29.7)
Derivative financial instruments not designated as hedges:			
Interest rate swaps and swaptions	**(193.8)**	(89.8)	(114.4)
RPI swaps	**(572.5)**	(454.3)	(602.9)
Energy swaps	**(8.0)**	(7.1)	(2.2)
Total derivative financial instruments	**(914.0)**	(628.0)	(749.2)
Derivative financial instruments can be analysed as follows:			
Current	**(16.4)**	(19.0)	(117.9)
Non-current	**(897.6)**	(609.0)	(631.3)
	(914.0)	(628.0)	(749.2)

22. Financial instruments (continued)

Derivative financial instruments – The company

			Company
	2015	2014	2013
	£m	£m	£m
Financial assets			
Derivative financial instruments not designated as hedges:			
Interest rate swaps and swaptions	**13.3**	14.1	23.7
Total derivative financial instruments	**13.3**	14.1	23.7
Derivative financial instruments can be analysed as follows:			
Current	**2.0**	2.0	1.9
Non-current	**11.3**	12.1	21.8
	13.3	14.1	23.7

			Company
	2015	2014	2013
	£m	£m	£m
Financial liabilities			
Designated as cash flow hedges			
Interest rate swaps	**(11.0)**	(13.3)	(19.6)
	(11.0)	(13.3)	(19.6)
Derivative financial instruments designated as hedges	**(11.0)**	(13.3)	(19.6)
Derivative financial instruments not designated as hedges:			
Interest rate swaps and swaptions	**(25.0)**	(30.0)	(44.2)
Total derivative financial instruments	**(36.0)**	(43.3)	(63.8)
Derivative financial instruments can be analysed as follows:			
Current	**(5.4)**	(5.4)	(5.1)
Non-current	**(30.6)**	(37.9)	(58.7)
	(36.0)	(43.3)	(63.8)

22. Financial instruments (continued)

Derivative financial instruments (continued)

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a loss of £0.6 million (2014: gain of £0.1 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £1.8 million (2014: loss of £0.7 million).

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2015 was £4,559.3 million (2014: £3,746.4 million) and outstanding swaptions at 31 March 2015 were £300.0 million (2014: £300.0 million).

The notional foreign currency principal amount of the outstanding cross currency interest rate swap contracts at 31 March 2015 was USD 947.0 million (2014: USD 947.0 million), EUR 500.0 million (2014: EUR 500.0 million), JPY 20.0 billion (2014: JPY 20.0 billion).

At 31 March 2015 the fixed interest rates vary from 2.869% to 7.163%, floating rates vary from 0.576% (LIBOR minus 10.25 bps) to 3.354% (LIBOR plus 267.5 bps) and index-linked interest rates vary from 1.270% to 2.970% plus RPI. Gains and losses recognised in the hedging reserve in equity on interest rate and cross currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in the hedging reserve in equity on energy hedges will be released to the income statement within finance costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IAS 39 the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2015 (2014: £nil).

22. Financial instruments (continued)

Derivative financial instruments (continued)

The effective interest rate at the balance sheet dates were as follows:

	2015	2014
Borrowings - GBP	**4.2%**	4.8%
Borrowings - USD	**2.9%**	2.9%
Borrowings - EUR	**7.0%**	7.0%
Borrowings - JPY	**1.4%**	1.3%

The weighted average interest costs at the balance sheet dates were as follows:

	2015	2014
Fixed	**5.8%**	5.9%
Floating	**1.4%**	1.3%
Indexed	**3.9%**	4.9%

Finance leases

The minimum lease payments under finance leases fall due as follows:

	2015 £m	2014 £m	2013 £m
The group			
Within one year	**4.7**	8.9	4.4
Within two and five years	**26.0**	24.8	29.0
After five years	**15.5**	22.5	30.0
	46.2	56.2	63.4
Future finance charges on finance leases	**(3.3)**	(4.2)	(7.4)
Present value of finance lease liabilities	**42.9**	52.0	56.0

22. Financial instruments (continued)

Fair value of financial assets and liabilities

	Book value £m	**Fair value £m**
At 31 March 2015		
Cash and cash equivalents	**703.5**	**703.5**
Cash deposits	**112.0**	**112.0**
Current borrowings	**(1,105.4)**	**(1,109.6)**
Non-current borrowings	**(6,722.8)**	**(7,926.1)**
Current derivative financial instruments	**30.4**	**30.4**
Non-current derivative financial instruments	**(207.7)**	**(207.7)**
Current RPI swaps	**(8.0)**	**(8.0)**
Non-current RPI swaps	**(564.5)**	**(564.5)**
Net debt	**(7,762.5)**	**(8,970.0)**
Energy hedging derivatives	**(21.4)**	**(21.4)**
Other financial liabilities	**-**	**(5.0)**
	(7,783.9)	**(8,996.4)**

	Book value £m	Fair value £m
At 31 March 2014		
Cash and cash equivalents	649.3	649.3
Cash deposits	80.9	80.9
Current borrowings	(907.8)	(907.0)
Non-current borrowings	(6,722.2)	(7,348.5)
Current derivative financial instruments	25.8	25.8
Non-current derivative financial instruments	(69.1)	(69.1)
Current RPI swaps	(7.8)	(7.8)
Non-current RPI swaps	(446.4)	(446.4)
Net debt	(7,397.3)	(8,022.8)
Energy hedging derivatives	(12.0)	(12.0)
Other financial liabilities	-	(5.1)
	(7,409.3)	(8,039.9)

	Book value £m	Fair value £m
At 1 April 2013		
Cash and cash equivalents	1,001.9	1,001.9
Cash deposits	129.0	129.0
Current borrowings	(1,516.4)	(1,529.2)
Non-current borrowings	(6,454.7)	(7,142.9)
Current derivative financial instruments	141.0	141.0
Non-current derivative financial instruments	21.6	21.6
Current RPI swaps	(111.6)	(111.6)
Non-current RPI swaps	(491.4)	(491.4)
Net debt	(7,280.6)	(7,981.6)
Energy hedging derivatives	(1.7)	(1.7)
Other financial liabilities	-	(21.7)
	(7,282.3)	(8,005.0)

22. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publically traded, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at 31 March with reference to estimated future cash flows and observable yield curves. The value of cross currency interest rate derivative financial instruments is determined using forward exchange rates at 31 March, with the resulting value discounted back to calculate the net realisable value that would have arisen if these contracts terminated at 31 March. The fair value of the group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at 31 March.

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

Fair values of other non-current investments, non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from book value.

Derivative transactions expose the group to credit risk against the counterparties concerned. Anglian Water has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 7 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets for identical assets and liabilities. The future cash flows have been discounted at a rate that reflects credit risk.

22. Financial instruments (continued)

Financing structure

The group's regulated water and water recycling business, Anglian Water, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2015 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.2% (2014: 79.6%).

The group has also raised finance within the company and its direct subsidiary Anglian Water (Osprey) Financing Plc.

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance & Non Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to:

- ensure that lenders' covenants are met;
- secure funds through a balanced approach to financial markets and maturities;
- manage interest rates to minimise financial exposures and minimise interest costs;
- invest temporary surplus cash to best advantage at minimal financial risk;
- maintain an excellent reputation with providers of finance and rating agencies;
- promote management techniques and systems;
- enhance control of financial resources; and
- monitor counter party credit exposure.

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by the company, Anglian Water (Osprey) Financing Plc and Anglian Water Services Financing Plc. The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in May 2015 and treasury matters are reported to the Board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance & Non Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA rated money funds.

The group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy.

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

22. Financial instruments (continued)

a) Market risk

i) Foreign currency

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

ii) Interest rate

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, hedging levels are maintained between 30% and 60% for fixed rate debt, between 30% and 55% for index-linked debt, and between 5% and 15% for floating rate debt. Within these hedging levels, the group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full i.e. the provision of adequate finance for Anglian Water Services at all times and maintaining security of principal.

The group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as required, within the hedging limits outlined above.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the group's profits and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2015	2014
	£m	£m
Increase/(decrease) in profit before tax and in equity		
1% increase in interest rates	**316.7**	260.2
1% decrease in interest rates	**(649.2)**	(376.9)

The following assumptions were made in calculating the interest rate sensitivity analysis:

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions which are not hedge accounted;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

22. Financial instruments (continued)

iii)Inflation rate risk

The finance cost of the group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the group's revenues and regulatory assets, which are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for index-linked debt of between 30% and 55% of total debt.

The sensitivity at 31 March of the group's profit before taxation and equity to changes in RPI on debt and derivative instruments is set out in the following tables:

Debt instruments

The analysis below shows the impact of a one per cent change in RPI over the 12 month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis which varies from three to fourteen months and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to fourteen months earlier.

	2015 £m	2014 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(22.8)**	(21.9)
1% decrease in RPI	**22.8**	21.9

RPI-linked derivatives

The fair values of the group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table.

	2015 £m	2014 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(171.0)**	(149.5)
1% decrease in RPI	**116.1**	104.0

iv)Commodity price risk

The group is allowed a fixed amount of revenue by Ofwat, in real terms, to cover electricity costs for each five year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flow. The group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, or through the purchase of wholesale electricity swaps with financial counterparties.

The group has used a combination of forwards contracts and electricity swap contracts to fix the price of 73% of its anticipated electricity usage out to the end of AMP6.

Assuming all energy hedges were in effective hedging relationships, a 10% increase/decrease in commodity prices would have the following impact:

	2015 £m	2014 £m
Increase/(decrease) in profit before tax and in equity		
10% increase on commodity prices	**8.2**	8.0
10% decrease on commodity prices	**(8.2)**	(8.0)

22. Financial instruments (continued)

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 19.

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

The table below shows the counterparty by rating type and the balances on deposit.

	2015 £m	2014 £m
Counterparty		
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher	**815.5**	730.2

In the case of derivatives, any current positive value from a group perspective is at risk, however there is potential for the value to become increasingly positive in the future as market rates move. Group policy requires that transactions are only executed with counter parties which are both (a) from the lending group (b) rated at least A- (long term) or A1 (short term) by Standard & Poor's, Moody's or Fitch.

At 31 March 2015 and 31 March 2014 the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	2015 £m	2014 £m
Cash and cash equivalents	**703.5**	649.3
Trade and other receivables	**247.1**	229.3
Investments - cash deposits	**112.0**	80.9
Derivative financial assets	**142.8**	118.5

22. Financial instruments (continued)

c) Capital risk management

Treasury's prime responsibility is the efficient and effective management of financial resources within the Group, i.e. the provision of adequate finance and liquidity at all times whilst maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. Treasury will actively seek opportunities to raise debt, to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk whilst maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the high level of gearing in the group and the long term nature of the group's asset base, the group is primarily funded from the debt capital markets. It is the group's policy to maintain sufficient cash and/ or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short term difficulties in the capital markets. The treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

d) Liquidity risk

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The Group maintains sufficient liquidity to cover 12 months working capital requirements, and the non-regulated businesses are run on a cash-positive basis. Internal policy is to maintain 18 months liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least 6 months in advance, to ensure covenant compliance.

The group has the following undrawn committed borrowing facilities available at 31 March 2015 in respect of which all conditions precedent had been met at that date:

	2015	2014
	£m	£m
The group		
Within one year	**375.0**	375.0
Within one and two years	**-**	25.0
Within two and five years	**525.0**	420.0
	900.0	820.0

The group's borrowing facilities comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Santander UK Plc and Lloyds TSB Bank Plc; a £96.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds Bank Plc, Santander UK Plc and Commonwealth Bank of Australia; a syndicated £500.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and a £25.0 million undrawn bank facility syndicated to certain banks, with Royal Bank of Scotland Plc acting as agent.

22. Financial instruments (continued)

d) Liquidity risk (continued)

The table below analyses the group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Within one year £m	Within one and five years £m	Within five and 25 years £m	After 25 years £m	Total £m
At 31 March 2015					
Trade and other payables	(472.7)	(6.0)	-	-	**(478.7)**
Borrowings	(1,335.3)	(2,037.9)	(7,015.5)	(3,754.1)	**(14,142.8)**
Derivative financial instruments	(77.7)	(17.5)	(258.1)	(973.8)	**(1,327.1)**
Finance leases	(3.7)	(19.0)	(10.2)	-	**(32.9)**
	(1,889.4)	**(2,080.4)**	**(7,283.8)**	**(4,727.9)**	**(15,981.5)**
At 31 March 2014					
Trade and other payables	(419.2)	(2.4)	-	-	(421.6)
Borrowings	(1,056.6)	(2,259.5)	(7,517.7)	(4,343.7)	(15,177.5)
Derivative financial instruments	(2.7)	(9.7)	(366.9)	(1,189.6)	(1,568.9)
Finance leases	(7.9)	(18.3)	(16.1)	-	(42.3)
	(1,486.4)	(2,289.9)	(7,900.7)	(5,533.3)	(17,210.3)

23. Provisions for liabilities

	Onerous leases £m	Business closures and disposals £m	Contract and other £m	Joint venture net liabilities £m	Total £m
The group					
At 1 April 2013	25.1	1.1	0.6	-	**26.8**
Charge for the year	4.8	-	-	-	**4.8**
Transfer to/from investments	-	-	-	0.5	**0.5**
Unwinding of discount	0.7	-	-	-	**0.7**
Utilised in the year	(6.3)	-	-	-	**(6.3)**
At 31 March 2014	24.3	1.1	0.6	0.5	**26.5**
Charge for the year	3.9	-	-	-	**3.9**
Unwinding of discount	1.0	-	-	-	**1.0**
Utilised in the year	(7.0)	-	(0.2)	-	**(7.2)**
At 31 March 2015	**22.2**	**1.1**	**0.4**	**0.5**	**24.2**

Maturity analysis of total provisions.

	2015 £m	2014 £m	2013 £m
Current	**6.4**	7.1	6.9
Non-current	**17.8**	19.4	19.9
	24.2	26.5	26.8

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next nine years.

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

The contract and other provisions comprise uncertain warranty and certification costs of £0.4 million (2014: £0.4 million), which are expected to crystallise over a period of approximately two years and £nil (2014: £0.2 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately one year.

The provision for joint venture liabilities represents the aggregate amount of net liabilities in joint ventures at the balance sheet date. The amounts have been transferred from investments in order to separate the gross amounts of investments with net liabilities from those with net assets as prescribed in the accounting policy note 1(b). Movements in the group's share of joint venture assets and liabilities are disclosed in note 17.

The company

The company has no provisions for liabilities (2014: none).

24. Deferred tax

	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
The group						
At 1 April 2013	1,584.3	(183.5)	(23.4)	(142.5)	(6.2)	**1,228.7**
(Credited)/charged directly to the income statement	(196.9)	43.4	5.9	-	0.3	**(147.3)**
Charged directly to other comprehensive income	-	3.6	3.2	-	-	**6.8**
At 31 March 2014	1,387.4	(136.5)	(14.3)	(142.5)	(5.9)	**1,088.2**
(Credited)/charged directly to the income statement	(6.1)	(39.6)	5.4	(2.6)	0.4	**(42.5)**
Credited directly to other comprehensive income	-	(14.6)	(0.3)	-	-	**(14.9)**
At 31 March 2015	**1,381.3**	**(190.7)**	**(9.2)**	**(145.1)**	**(5.5)**	**1,030.8**

	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
The company						
At 1 April 2013	-	(8.3)	-	-	-	**(8.3)**
Charged directly to the income statement	-	1.4	-	-	-	**1.4**
Charged directly to other comprehensive income	-	1.8	-	-	-	**1.8**
At 31 March 2014	-	(5.1)	-	-	-	**(5.1)**
Charged directly to the income statement	-	0.8	-	-	-	**0.8**
Charged directly to other comprehensive income	-	0.5	-	-	-	**0.5**
At 31 March 2015	**-**	**(3.8)**	**-**	**-**	**-**	**(3.8)**

Deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge of £145.1 million would arise.

The group has the following deferred tax assets that are not recognised in the financial statements:

	2015 £m	2014 £m
The group		
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**1.6**	1.6
	24.4	24.4

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

25. Pension commitments

Pension arrangements for just under half of the group's employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS') and various other smaller arrangements. Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving the schemes, payable on attainment of retirement age (or earlier death). The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). In addition, pensions in payment to a number of former employees are unfunded. The administration and investment of the pension funds are maintained separately from the finances of the group.

The defined benefit arrangements are open to future accrual (with the exception of the MPLAP scheme) but closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

A full valuation as at 31 March 2011 was completed for AWGPS, and as at 1 April 2011 for MPLAP, the results of which have been used as a basis for the IAS 19 disclosures as at 31 March 2015.

Following a comprehensive review process, in 2011 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme.

The group has a plan in place with the schemes' trustees to address the funding deficit by 2026, through a series of annual deficit recovery contributions.

The group contributed 12.5% (2014: 12.5%) of pensionable pay plus £23.3 million (2014: £22.7 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.5 million (2014: £5.5 million) during the year. In the year to 31 March 2016 employers' contributions are expected to be £26.8 million, including contributions to AWGPS of 15.5% of pensionable pay plus £10 million of deficit reduction payments.

The weighted average duration of the defined benefit obligation is 19 years.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £6.4 million (2014: £5.8 million).

25. Pension commitments (continued)

a) Principal actuarial assumptions

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

	2015 % pa	2014 % pa
Discount rate	**3.2**	4.3
Inflation rate		
RPI	**3.0**	3.4
CPI	**2.0**	2.4
Increase to deferred benefits during deferment		
RPI	**3.0**	3.4
CPI	**2.0**	2.4
Increases to inflation related pensions in payment [1]		
RPI	**2.9**	3.3
CPI	**2.1**	2.4
General salary increases [2]	**2.5 / 4.0**	2.5 / 4.4

	2015 years	2014 years
Longevity at age 65 for current pensioners		
Men	**23.2**	23.1
Women	**25.5**	25.4
Longevity at age 65 for future pensioners [3]		
Men	**25.0**	24.9
Women	**27.5**	27.4

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

(2) As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees that are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5% per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.0% per annum) and RPI price inflation (3.0% per annum) are both above 2.5% per annum at 31 March 2015, the 2.5% cap on future pensionable salary increases is assumed to apply. Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5% per annum over the period from 1 April 2012 to retirement or earlier leaving.

(3) The life expectancy shown for future pensioners is for those reaching 65 in 2035.

25. Pension commitments (continued)

b) Sensitivity analysis

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Change in assumption	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2015					
Discount rate	+/- 0.5% pa	-115 / +131	-29 / +34	-/+ 3	-147 / +168
Rate of RPI inflation	+/- 0.5% pa	+119 / -108	+18 / -16	+/- 3	+140 / -127
Rate of salary increases	+/- 0.5% pa	-	+/- 1	-	+/- 1
Life expectancy	+/- 1 year	+/- 39	+/- 10	+/- 2	+/- 51

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section c) below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on CPI inflation, pension increases and salary increases due to the way the assumptions are derived.

25. Pension commitments (continued)

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective – i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the group's contribution requirements. However, in this scenario the schemes' investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

Price inflation

The majority of the schemes' benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes' assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

25. Pension commitments (continued)

d) Amounts recognised in comprehensive income

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2015				
Amount charged to staff costs within operating profit				
Current service cost	(7.1)	(0.1)	-	**(7.2)**
Administration expenses	(1.2)	(0.5)	-	**(1.7)**
Total operating charge (see note 10)	**(8.3)**	**(0.6)**	**-**	**(8.9)**
Net interest expense (see note 8)	(0.1)	(0.4)	(2.0)	**(2.5)**
Amounts charged to the income statement	**(8.4)**	**(1.0)**	**(2.0)**	**(11.4)**
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	168.6	19.1	-	**187.7**
Actuarial losses arising from changes in financial assumptions	(165.0)	(48.4)	(3.6)	**(217.0)**
Adjustments for restrictions on the defined benefit asset	-	27.8	-	**27.8**
Net (charge)/credit to other comprehensive income	**3.6**	**(1.5)**	**(3.6)**	**(1.5)**
2014				
Amount charged to staff costs within operating profit				
Current service cost	(7.7)	(0.2)	-	(7.9)
Administration expenses	(1.0)	(0.6)	-	(1.6)
Loss on settlement	-	(0.3)	-	(0.3)
Total operating charge (see note 10)	(8.7)	(1.1)	-	(9.8)
Net interest expense (see note 8)	(1.2)	(0.5)	(2.0)	(3.7)
Amounts charged to the income statement	(9.9)	(1.6)	(2.0)	(13.5)
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	(6.0)	(2.9)	-	(8.9)
Actuarial gains from changes in financial assumptions	11.3	2.5	0.8	14.6
Adjustments for restrictions on the defined benefit asset	-	(0.2)	-	(0.2)
Net (charge)/credit to other comprehensive income	5.3	(0.6)	0.8	5.5

25. Pension commitments (continued)

e) Amounts recognised in the balance sheet

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2015				
Equities	318.8	77.4	-	**396.2**
Corporate bonds	712.8	55.2	-	**768.0**
Government bonds	153.9	60.9	-	**214.8**
Property	91.8	0.9	-	**92.7**
Alternatives	136.9	11.7	-	**148.6**
Other	(69.5)	47.7	-	**(21.8)**
Total assets	1,344.7	253.8	-	**1,598.5**
Present value of scheme liabilities	(1,333.9)	(261.8)	(48.7)	**(1,644.4)**
Net pension liability	**10.8**	**(8.0)**	**(48.7)**	**(45.9)**
Comprising:				
Pension schemes with net assets	10.8	0.5	-	**11.3**
Pension schemes with net liabilities	-	(8.5)	(48.7)	**(57.2)**
	10.8	**(8.0)**	**(48.7)**	**(45.9)**
2014				
Equities	269.3	84.8	-	354.1
Corporate bonds	496.9	52.2	-	549.1
Government bonds	239.7	47.3	-	287.0
Property	68.9	1.0	-	69.9
Alternatives	3.1	31.9	-	35.0
Other	58.4	8.2	-	66.6
Total assets	1,136.3	225.4	-	1,361.7
Present value of scheme liabilities	(1,150.2)	(210.6)	(45.9)	(1,406.7)
Amounts not recognised (1)	-	(16.0)	-	(16.0)
Liability arising from minimum funding requirement (2)	-	(10.6)	-	(10.6)
Net pension liability	(13.9)	(11.8)	(45.9)	(71.6)
Comprising:				
Pension schemes with net liabilities	(13.9)	(11.8)	(45.9)	(71.6)
2013				
Equities	300.5	79.1	-	379.6
Corporate bonds	443.8	32.7	-	476.5
Government bonds	219.3	64.7	-	284.0
Property	50.1	0.4	-	50.5
Alternatives	23.8	38.7	-	62.5
Other	62.3	13.0	-	75.3
Total assets	1,099.8	228.6	-	1,328.4
Present value of scheme liabilities	(1,138.3)	(218.1)	(47.5)	(1,403.9)
Amounts not recognised (1)	-	(10.7)	-	(10.7)
Liability arising from minimum funding requirement (2)	-	(15.6)	-	(15.6)
Net pension liability	(38.5)	(15.8)	(47.5)	(101.8)
Comprising:				
Pension schemes with net liabilities	(38.5)	(15.8)	(47.5)	(101.8)

(1) Amounts not recognised relate to surpluses that can not be recovered through refunds or a reduction in future contributions.

(2) The liability arising from minimum funding requirement represents the discounted value of future committed contributions for schemes with a surplus that can not be recovered through refunds or a reduction in future contributions.

25. Pension commitments (continued)

e) Amounts recognised in the balance sheet (continued)

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

f) Reconciliation of fair value of scheme assets

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2015				
At 1 April 2014	1,136.3	225.4	-	**1,361.7**
Interest income on scheme assets	48.7	9.7	-	**58.4**
Administration costs	(1.2)	(0.5)	-	**(1.7)**
Employers' contributions	29.5	6.3	2.8	**38.6**
Members' contributions	3.6	-	-	**3.6**
Benefits paid	(40.8)	(6.2)	(2.8)	**(49.8)**
Return on plan assets (excluding interest income)	168.6	19.1	-	**187.7**
At 31 March 2015	**1,344.7**	**253.8**	**-**	**1,598.5**
2014				
At 1 April 2013	1,099.8	228.6	-	1,328.4
Interest income on scheme assets	47.2	8.7	-	55.9
Administration costs	(1.0)	(0.6)	-	(1.6)
Employers' contributions	29.2	6.2	2.8	38.2
Members' contributions	3.8	-	-	3.8
Benefits paid	(36.7)	(5.8)	(2.8)	(45.3)
Bulk transfer	-	(8.8)	-	(8.8)
Return on plan assets (excluding interest income)	(6.0)	(2.9)	-	(8.9)
At 31 March 2014	1,136.3	225.4	-	1,361.7

g) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2015				
At 1 April 2014	(1,150.2)	(210.6)	(45.9)	**(1,406.7)**
Current service cost	(7.1)	(0.1)	-	**(7.2)**
Interest cost on scheme liabilities	(48.8)	(8.9)	(2.0)	**(59.7)**
Members' contributions	(3.6)	-	-	**(3.6)**
Benefits paid	40.8	6.2	2.8	**49.8**
Actuarial loss	(165.0)	(48.4)	(3.6)	**(217.0)**
At 31 March 2015	**(1,333.9)**	**(261.8)**	**(48.7)**	**(1,644.4)**
2014				
At 1 April 2013	(1,138.3)	(218.1)	(47.5)	(1,403.9)
Current service cost	(7.7)	(0.2)	-	(7.9)
Interest cost on scheme liabilities	(48.4)	(9.1)	(2.0)	(59.5)
Members' contributions	(3.8)	-	-	(3.8)
Benefits paid	36.7	5.8	2.8	45.3
Curtailments and settlements	-	8.5	-	8.5
Actuarial gain	11.3	2.5	0.8	14.6
At 31 March 2014	(1,150.2)	(210.6)	(45.9)	(1,406.7)

26. Share capital

	Group and Company		
	2015	2014	2013
	£m	£m	£m
Allotted, issued and fully paid			
85,415,751,649 ordinary shares of 1 pence each	**854.2**	854.2	854.2

27. Hedging reserve

	2015	2014
	£m	£m
The group		
At the start of the year	**(29.0)**	(36.5)
Losses on cash flow energy hedges	**(8.6)**	(4.9)
Amounts transferred to the income statement	**12.6**	10.7
Losses on cash flow hedges	**(104.0)**	(17.2)
Exchange movement on debt in cash flow hedges	**26.7**	22.5
Deferred tax movement on cash flow hedges	**14.6**	(3.6)
At 31 March	**(87.7)**	(29.0)

	2015	2014
	£m	£m
The company		
At the start of the year	**(9.4)**	(14.0)
Gains on cash flow hedges	**1.7**	4.6
At 31 March	**(7.7)**	(9.4)

28. Capital commitments

The group

The group has a substantial long-term investment programme in Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2015.

	2015	2014
	£m	£m
Property, plant and equipment	**69.9**	101.1
Intangible assets	**8.2**	12.0
	78.1	113.1

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

The company

The company has no such commitments (2014: none).

29. Lease commitments

a) Operating lease commitments

The group leases certain properties and various items of plant and equipment, as well as vehicles, under operating leases. In addition the group sub-lets a number of leased properties.

At 31 March 2015 the group had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	2015 £m	2014 £m
Within one year	**10.9**	11.3
Within two and five years	**31.3**	35.7
After five years	**17.8**	17.8
	60.0	64.8

The total future minimum sublease payments expected to be received under non-cancellable operating leases were:

	2015 £m	2014 £m
Within one year	**3.6**	4.0
Within two and five years	**5.6**	7.9
After five years	**1.1**	1.6
	10.3	13.5

The company

The company has no such commitments (2014: none).

b) Leases as lessor

The group leases out its investment properties. During the year to 31 March 2015 rental income of £0.2 million (2014: £0.2 million) was included within revenue.

30. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also issued guarantees in respect of its joint ventures of £6.6 million (2014: £7.2 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary. At 31 March 2015, the group had £145.1 million (2014: £142.5 million) of recoverable ACT recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging that we may have infringed the Competition Act 1998 in respect of our approach to pricing supplies to a housing development at Milton Keynes. We served a written response to Ofwat's Statement of Objections refuting the allegations in April 2012. In September 2012 we attended an oral hearing at which we made further representations to Ofwat. On 11 July 2013, we attended a further meeting with Ofwat which was convened by Ofwat in order to enable to share its latest thinking in relation to the investigation. On 2 September 2013, we submitted a response to Ofwat in relation to the issues raised in the course of the 11 July meeting. On 25 April 2014 Ofwat issued a Supplementary Statement of Objections and a press release to say that further investigation is required before a decision could be taken, but gave no indication of when this process would be concluded. Anglian Water responded to the Supplementary Statement of Objections in July 2014. The next step is to attend an oral hearing, a date for which has yet to be set by Ofwat. If Ofwat ultimately rule against Anglian Water, the matter is expected to be immaterial in the context of our overall business.

As is normal for a company of this size and nature it is subject to a number of other claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items in these financial statements.

31. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Osprey Holdco Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors, and 3i.

Osprey Holdco Limited is the parent company of the smallest group to consolidate the financial statements of the company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the company. Copies of the Anglian Water Group Limited financial statements can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6YJ.

32. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

During the year to 31 March 2015, Anglian Water Services Financing Plc entered into a fixed to fixed swap agreement with a notional principal of £31.3 million, on normal commercial terms, through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited. In addition to this the Commonwealth Bank of Australia participated in the new £500 million revolving credit facility with an allocation of £45 million and renewed its participation in the Class Operation and Maintenance facility. The fees earned on these facilities totalled £188,750.

During the year to 31 March 2014, Anglian Water Services Financing Plc issued three ten year US dollar private placements through the Commonwealth Bank of Australia. The US$170 million and £93 million private placements were issued in conjunction with Barclays, and the US$160 million private placement with BNP Paribas. The Commonwealth Bank of Australia earned fees which were agreed on normal commercial terms, of 20 and 32.5 basis points on the whole amount of these transactions, equating to a total of US$1,146,000.

During the year to 31 March 2015 there were no other transactions (2014: none) with the shareholders of the ultimate parent undertaking.

b) Transactions with Key Management

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year a return of £0.3 million (2014: £0.6 million) was earned, and the group repaid £2.5 million (2014: £0.2 million) as part of this scheme. At 31 March 2015 £3.5 million (2014: £5.7 million) was loaned to the group by Key Management under this scheme. At the balance sheet date Key Management also held various bonds issued by the group totalling £0.1 million (2014: £0.2 million).

Remuneration of key management personnel

	2015 £m	2014 £m
Short-term employee benefits	**4.9**	4.5
Post-employment benefits	**0.5**	0.5
Other long-term benefits	**1.5**	1.4
	6.9	6.4

32. Related party transactions (continued)

c) Transactions with joint ventures

The group's transactions with joint ventures are summarised below:

	2015 £m	2014 £m
Sale of goods/services	**0.4**	1.2
Management fees received	**0.3**	0.4
Dividends received	**1.7**	1.8

Transactions with joint ventures were carried out on commercial terms and conditions and at market prices.

Year-end trading balances with joint ventures were as follows:

	2015 £m	2014 £m
Amounts receivable from joint ventures	**0.9**	1.0
Amounts payable to joint ventures	**-**	-

The following loans to related parties were made to fund the ongoing development activities of joint venture companies.

	2015 £m	2014 £m
At start of year	**9.8**	11.4
Additions	**0.4**	-
Repayments	**(0.2)**	-
Amounts provided	**(5.8)**	(1.6)
At 31 March	**4.2**	9.8

d) Parent company

The company's related party transactions are summarised below:

	2015 £m	2014 £m
Management fees paid to		
Subsidiaries	**(0.1)**	(0.1)
Interest paid to		
Subsidiaries	**(40.2)**	(29.2)
Dividends received from		
Subsidiaries	**123.6**	168.6
Dividends paid to		
Parent company	**(91.5)**	(138.8)

	2015 £m	2014 £m
Current tax receivables due from		
Subsidiaries	**10.8**	9.4
Loans and other borrowings due to		
Parent company	**(728.8)**	(728.8)
Subsidiaries	**(460.0)**	(447.9)

33. Transition to International Financial Reporting Standards

This is the first year in which the group has presented its financial statements under IFRS. The last financial statements prepared under UK GAAP were for the year ended 31 March 2014. The group's date of transition to IFRS was 1 April 2013 and all comparative information in these financial statements has been restated to reflect the group's adoption of IFRS, except where otherwise required or permitted by IFRS 1.

IFRS 1 requires that IFRS is applied retrospectively to establish the group's balance sheet at the date of transition, 1 April 2013, unless a specific exemption is applied. In preparing these IFRS financial statements, the group has adopted the following exemptions:

- To elect not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations that occurred before the date of transition to IFRS.
- To measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and to use that fair value as its deemed cost at that date.
- To deem cumulative translation differences for all foreign operations to be zero as at the transition IFRS balance sheet date.
- To recognise in full transfers of assets from customers from the date of transition to IFRS.

The analysis below shows a reconciliation of equity, at both 1 April 2013 and 31 March 2014, and profit for the year ended 31 March 2014, as reported under UK GAAP, to the revised equity and total comprehensive income under IFRS reported in these consolidated financial statements.

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated income statement for the year ended 31 March 2014

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Reverse fair value adjustment £m	Capitalis-ation of interest £m	Financial instruments £m	Deferred tax £m	Goodwill £m	Other items £m	**Restated under IFRS £m**
Revenue	1,248.1	-	-	-	-	-	-	-	(25.5)	**1,222.6**
Other operating income	-	12.3	-	-	-	-	-	-	-	**12.3**
Operating costs										
Operating costs before depreciation and amortisation	(495.8)	(34.2)	-	-	-	-	-	-	19.2	**(510.8)**
Depreciation and amortisation	(283.8)	55.9	(45.1)	11.9	(11.2)	-	-	-	0.2	**(272.1)**
Fair value losses on energy hedges	-	-	-	-	-	(5.4)	-	-	-	**(5.4)**
Goodwill amortisation	(68.7)	-	-	-	-	-	-	68.7	-	**-**
Total operating costs	(848.3)	21.7	(45.1)	11.9	(11.2)	(5.4)	-	68.7	19.4	**(788.3)**
Share of operating profit in joint ventures	1.7	-	-	-	-	-	-	-	(1.7)	**-**
Operating profit	401.5	34.0	(45.1)	11.9	(11.2)	(5.4)	-	68.7	(7.8)	**446.6**
Finance income	5.6	-	-	-	-	-	-	-	-	**5.6**
Finance costs	(355.9)	-	-	-	24.3	(0.8)	-	-	1.8	**(330.6)**
Fair value gains on derivative financial instruments	-	-	-	-	-	91.0	-	-	-	**91.0**
Net finance costs	(350.3)	-	-	-	24.3	90.2	-	-	1.8	**(234.0)**
Share of profit of joint ventures	-	-	-	-	-	-	-	-	2.6	**2.6**
Profit before tax from continuing operations	51.2	34.0	(45.1)	11.9	13.1	84.8	-	68.7	(3.4)	**215.2**
Tax	13.8	3.9	108.8	(29.7)	6.9	(28.2)	59.7	-	0.7	**135.9**
Profit for the year	65.0	37.9	63.7	(17.8)	20.0	56.6	59.7	68.7	(2.7)	**351.1**
Attributable to:										
Owners of the parent	62.6	37.9	63.7	(17.8)	20.0	56.6	59.7	68.7	(0.3)	**351.1**
Non-controlling interests	2.4	-	-	-	-	-	-	-	(2.4)	**-**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated balance sheet at 31 March 2014

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Reverse fair value adjustment £m	Capitalis-ation of interest £m	Financial instruments £m	Deferred tax £m	Goodwill £m	Other items £m	**Restated under IFRS £m**
Non-current assets										
Goodwill	866.7	-	(489.6)	-	-	-	-	68.7	-	**445.8**
Other intangible assets	-	81.3	-	-	4.4	-	-	-	-	**85.7**
Property, plant and equipment	6,068.4	564.2	3,279.8	(899.3)	327.0	-	-	-	(2.5)	**9,337.6**
Investment properties	-	-	-	-	-	-	-	-	2.0	**2.0**
Investments in joint ventures	-	-	-	-	-	-	-	-	4.1	**4.1**
Derivative financial instruments	-	-	-	-	-	86.1	-	-	-	**86.1**
	6,935.1	645.5	2,790.2	(899.3)	331.4	86.1	-	68.7	3.6	**9,961.3**
Current assets										
Inventories	25.9	(0.1)	-	-	-	-	-	-	(0.2)	**25.6**
Trade and other receivables	499.2	-	-	-	-	-	-	-	(3.0)	**496.2**
Investments	80.9	-	-	-	-	-	-	-	-	**80.9**
Cash and cash equivalents	656.2	-	-	-	-	-	-	-	(6.9)	**649.3**
Derivative financial instruments	-	-	-	-	-	32.4	-	-	-	**32.4**
	1,262.2	(0.1)	-	-	-	32.4	-	-	(10.1)	**1,284.4**
Total assets	8,197.3	645.4	2,790.2	(899.3)	331.4	118.5	-	68.7	(6.5)	**11,245.7**
Current liabilities										
Trade and other payables	(513.6)	(3.7)	-	-	-	84.2	-	-	1.5	**(431.6)**
Current tax liabilities	(16.0)	-	-	-	-	-	-	-	-	**(16.0)**
Borrowings	(76.4)	-	-	-	-	(831.4)	-	-	-	**(907.8)**
Derivative financial instruments	-	-	-	-	-	(19.0)	-	-	-	**(19.0)**
Provisions	-	-	-	-	-	-	-	-	(7.1)	**(7.1)**
	(606.0)	(3.7)	-	-	-	(766.2)	-	-	(5.6)	**(1,381.5)**
Net current assets/(liabilities)	656.2	(3.8)	-	-	-	(733.8)	-	-	(15.7)	**(97.1)**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated balance sheet at 31 March 2014 (continued)

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Reverse fair value adjustment £m	Capitalis-ation of interest £m	Financial instruments £m	Deferred tax £m	Goodwill £m	Other items £m	**Restated under IFRS £m**
Net current assets/(liabilities)	656.2	(3.8)	-	-	-	(733.8)	-	-	(15.7)	**(97.1)**
Non-current liabilities										
Borrowings	(7,594.9)	-	-	-	-	872.7	-	-	-	**(6,722.2)**
Derivative financial instruments	-	-	-	-	-	(609.0)	-	-	-	**(609.0)**
Deferred tax liabilities	(27.5)	(77.6)	(655.9)	179.9	(66.3)	71.8	(527.6)	-	15.0	**(1,088.2)**
Retirement benefit obligations	(48.8)	-	-	-	-	-	-	-	(22.8)	**(71.6)**
Provisions	(53.0)	-	-	-	-	26.5	-	-	7.1	**(19.4)**
Other non-current liabilities	(134.7)	(253.4)	-	-	-	-	-	-	(2.4)	**(390.5)**
	(7,858.9)	(331.0)	(655.9)	179.9	(66.3)	362.0	(527.6)	-	(3.1)	**(8,900.9)**
Total liabilities	(8,464.9)	(334.7)	(655.9)	179.9	(66.3)	(404.2)	(527.6)	-	(8.7)	**(10,282.4)**
Net (liabilities)/assets	(267.6)	310.7	2,134.3	(719.4)	265.1	(285.7)	(527.6)	68.7	(15.2)	**963.3**
Capital and reserves										
Share capital	854.2	-	-	-	-	-	-	-	-	**854.2**
Revaluation reserve	-	-	2,560.2	-	-	-	-	-	-	**2,560.2**
Accumulated losses	(1,126.3)	310.7	(425.9)	(719.4)	265.1	(256.7)	(527.6)	68.7	(11.2)	**(2,422.6)**
Hedging reserve	-	-	-	-	-	(29.0)	-	-	-	**(29.0)**
Translation reserve	-	-	-	-	-	-	-	-	0.1	**0.1**
Equity attributable to owners of the parent	(272.1)	310.7	2,134.3	(719.4)	265.1	(285.7)	(527.6)	68.7	(11.1)	**962.9**
Non-controlling interests	4.5	-	-	-	-	-	-	-	(4.1)	**0.4**
Total equity	(267.6)	310.7	2,134.3	(719.4)	265.1	(285.7)	(527.6)	68.7	(15.2)	**963.3**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated balance sheet at 1 April 2013

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Reverse fair value adjustment £m	Capitalis-ation of interest £m	Financial instruments £m	Deferred tax £m	Goodwill £m	Other items £m	**Restated under IFRS £m**
Non-current assets										
Goodwill	935.4	-	(489.6)	-	-	-	-	-	-	**445.8**
Other intangible assets	-	73.2	-	-	3.1	-	-	-	-	**76.3**
Property, plant and equipment	5,944.7	509.6	3,324.9	(911.2)	315.2	-	-	-	(2.6)	**9,180.6**
Investment properties	-	-	-	-	-	-	-	-	2.0	**2.0**
Investments in joint ventures	-	-	-	-	-	-	-	-	3.6	**3.6**
Derivative financial instruments	-	-	-	-	-	160.0	-	-	-	**160.0**
	6,880.1	582.8	2,835.3	(911.2)	318.3	160.0	-	-	3.0	**9,868.3**
Current assets										
Inventories	24.9	(0.1)	-	-	-	-	-	-	(0.3)	**24.5**
Trade and other receivables	479.7	-	-	-	-	-	-	-	(2.8)	**476.9**
Investments	129.0	-	-	-	-	-	-	-	-	**129.0**
Cash and cash equivalents	1,007.3	-	-	-	-	-	-	-	(5.4)	**1,001.9**
Derivative financial instruments	-	-	-	-	-	147.1	-	-	-	**147.1**
	1,640.9	(0.1)	-	-	-	147.1	-	-	(8.5)	**1,779.4**
Total assets	8,521.0	582.7	2,835.3	(911.2)	318.3	307.1	-	-	(5.5)	**11,647.7**
Current liabilities										
Trade and other payables	(538.0)	(3.4)	-	-	-	88.1	-	-	1.0	**(452.3)**
Current tax liabilities	(17.6)	-	-	-	-	-	-	-	-	**(17.6)**
Borrowings	(662.4)	-	-	-	-	(854.0)	-	-	-	**(1,516.4)**
Derivative financial instruments	-	-	-	-	-	(117.9)	-	-	-	**(117.9)**
Provisions	-	-	-	-	-	-	-	-	(6.9)	**(6.9)**
	(1,218.0)	(3.4)	-	-	-	(883.8)	-	-	(5.9)	**(2,111.1)**
Net current assets/(liabilities)	422.9	(3.5)	-	-	-	(736.7)	-	-	(14.4)	**(331.7)**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated balance sheet at 1 April 2013 (continued)

	UK GAAP £m	Property, plant and equipment £m	Revaluation of property, plant and equipment £m	Reverse fair value adjustment £m	Capitalis-ation of interest £m	Financial instruments £m	Deferred tax £m	Goodwill £m	Other items £m	**Restated under IFRS £m**
Net current assets/(liabilities)	422.9	(3.5)	-	-	-	(736.7)	-	-	(14.4)	**(331.7)**
Non-current liabilities										
Borrowings	(7,187.4)	-	-	-	-	732.7	-	-	-	**(6,454.7)**
Derivative financial instruments	-	-	-	-	-	(631.3)	-	-	-	**(631.3)**
Deferred tax liabilities	(60.3)	(81.5)	(764.7)	209.6	(73.2)	104.6	(587.3)	-	24.1	**(1,228.7)**
Retirement benefit obligations	(66.4)	-	-	-	-	-	-	-	(35.4)	**(101.8)**
Provisions	(48.7)	-	-	-	-	21.9	-	-	6.9	**(19.9)**
Other non-current liabilities	(132.9)	(225.0)	-	-	-	-	-	-	(2.4)	**(360.3)**
	(7,495.7)	(306.5)	(764.7)	209.6	(73.2)	227.9	(587.3)	-	(6.8)	**(8,796.7)**
Total liabilities	(8,713.7)	(309.9)	(764.7)	209.6	(73.2)	(655.9)	(587.3)	-	(12.7)	**(10,907.8)**
Net (liabilities)/assets	(192.7)	272.8	2,070.6	(701.6)	245.1	(348.8)	(587.3)	-	(18.2)	**739.9**
Capital and reserves										
Share capital	854.2	-	-	-	-	-	-	-	-	**854.2**
Revaluation reserve	-	-	2,560.2	-	-	-	-	-	-	**2,560.2**
Accumulated losses	(1,050.9)	272.8	(489.6)	(701.6)	245.1	(312.3)	(587.3)	-	(14.6)	**(2,638.4)**
Hedging reserve	-	-	-	-	-	(36.5)	-	-	-	**(36.5)**
Equity attributable to owners of the parent	(196.7)	272.8	2,070.6	(701.6)	245.1	(348.8)	(587.3)	-	(14.6)	**739.5**
Non-controlling interests	4.0	-	-	-	-	-	-	-	(3.6)	**0.4**
Total equity	(192.7)	272.8	2,070.6	(701.6)	245.1	(348.8)	(587.3)	-	(18.2)	**739.9**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of company balance sheet and total comprehensive income at 31 March 2014

	UK GAAP £m	Financial instruments £m	**Restated under IFRS £m**
Non-current assets			
Other investments	2,311.8	-	**2,311.8**
Deferred tax assets	-	5.1	**5.1**
Derivative financial instruments	-	12.1	**12.1**
	2,311.8	17.2	**2,329.0**
Current assets			
Current tax receivables	9.4	-	**9.4**
Investments	12.5	-	**12.5**
Cash and cash equivalents	9.4	-	**9.4**
Derivative financial instruments	-	2.0	**2.0**
	31.3	2.0	**33.3**
Total assets	2,343.1	19.2	**2,362.3**
Current liabilities			
Trade and other payables	(7.5)	7.5	**-**
Borrowings	(0.9)	(733.0)	**(733.9)**
Derivative financial instruments	-	(5.4)	**(5.4)**
	(8.4)	(730.9)	**(739.3)**
Net current assets/(liabilities)	22.9	(728.9)	**(706.0)**
Non-current liabilities			
Borrowings	(1,173.1)	729.4	**(443.7)**
Derivative financial instruments	-	(37.9)	**(37.9)**
	(1,173.1)	691.5	**(481.6)**
Total liabilities	(1,181.5)	(39.4)	**(1,220.9)**
Net assets	1,161.6	(20.2)	**1,141.4**
Capital and reserves			
Share capital	854.2	-	**854.2**
Retained earnings	307.4	(10.8)	**296.6**
Hedging reserve	-	(9.4)	**(9.4)**
Total equity	1,161.6	(20.2)	**1,141.4**
Other comprehensive income			
Profit for the year	137.0	3.3	**140.3**
Total comprehensive income for the year	137.0	7.9	**144.9**

33. Transition to International Financial Reporting Standards (continued)

Reconciliation of company balance sheet at 31 March 2013

	UK GAAP £m	Financial instruments £m	**Restated under IFRS £m**
Non-current assets			
Investments	2,311.8	-	**2,311.8**
Deferred tax assets	-	8.3	**8.3**
Derivative financial instruments	-	21.8	**21.8**
	2,311.8	30.1	**2,341.9**
Current assets			
Trade and other receivables	0.1	-	**0.1**
Current tax receivables	9.7	-	**9.7**
Investments	12.1	-	**12.1**
Cash and cash equivalents	9.7	-	**9.7**
Derivative financial instruments	-	1.9	**1.9**
	31.6	1.9	**33.5**
Total assets	2,343.4	32.0	**2,375.4**
Current liabilities			
Trade and other payables	(7.4)	7.4	**-**
Borrowings	(1.4)	(733.1)	**(734.5)**
Derivative financial instruments	-	(5.1)	**(5.1)**
	(8.8)	(730.8)	**(739.6)**
Net current assets/(liabilities)	22.8	(728.9)	**(706.1)**
Non-current liabilities			
Borrowings	(1,171.2)	729.4	**(441.8)**
Derivative financial instruments	-	(58.7)	**(58.7)**
	(1,171.2)	670.7	**(500.5)**
Total liabilities	(1,180.0)	(60.1)	**(1,240.1)**
Net assets	1,163.4	(28.1)	**1,135.3**
Capital and reserves			
Share capital	854.2	-	**854.2**
Retained earnings	309.2	(14.1)	**295.1**
Hedging reserve	-	(14.0)	**(14.0)**
Total equity	1,163.4	(28.1)	**1,135.3**

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

i) Property, plant and equipment (IAS 16 and IAS 38)

Material differences to UK GAAP
The most material impact of IAS 16 'Property, Plant and Equipment' relates to the accounting for infrastructure assets within Anglian Water, the group's regulated water and sewerage company. Under UK GAAP, these assets were accounted for in accordance with the renewals accounting paragraphs of FRS 15 'Tangible fixed assets'. Such provisions are not present within IAS 16 and it is therefore necessary to change the way in which the assets are accounted for on transition to IFRS.

Under renewals accounting as permitted by FRS 15, the water and sewerage infrastructure networks are assumed to be single assets and the depreciation charged is the estimated level of annual expenditure required to maintain the operating capability of the networks. Actual expenditure is then capitalised as incurred.

Renewals accounting is not permitted under IAS 16. The carrying value of infrastructure assets has therefore been recalculated back to privatisation in 1989, as if infrastructure renewals accounting had never been adopted.

Under IFRS, infrastructure expenditure that meets the recognition criteria for property, plant and equipment has been capitalised at cost and depreciated over its expected life. Expenditure relating to repair or maintenance has been expensed.

Infrastructure grants and contributions previously presented as deductions from infrastructure cost under UK GAAP have been allocated to deferred income and amortised over the expected useful lives of the related assets.

Under UK GAAP, no value is recognised for assets transferred or adopted from developers or other third parties at nil consideration. IFRIC 18 'Transfers of Assets from Customers' requires that when an item is transferred from a customer, and it meets the definition of an asset, then it should be recognised at fair value within property, plant and equipment. The deferred credit arising on the adoption of the asset is recognised as other income over the life of the relevant asset.

There are no significant differences between UK GAAP and IFRS in respect of all other fixed assets, including water and water recycling non-infrastructure assets, other than the separate classification of certain assets as intangibles rather than tangible assets in accordance with IAS 38 'Intangible Assets'.

Impact
No individual main, sewer or other element of the water and wastewater network forms a significant part of the whole. Accordingly assets have been grouped by type, and depreciated over their estimated useful life ranging from 50 to 160 years. Recalculating the carrying value of infrastructure assets under IFRS has resulted in an increase in net assets, after tax, of £305.3 million as at March 2014.

In the year ended 31 March 2014, under IFRS, the annual depreciation charge of infrastructure assets plus the maintenance costs expensed exceeded the total of renewals expenditure recorded under UK GAAP by £34.2 million.

At 31 March 2014, the value of adopted assets recognised in accordance with IFRIC 18 since the date of transition was £20.0 million, with a corresponding credit to other liabilities.

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

ii) Revaluation of property, plant and equipment (IFRS 1)

Material differences to UK GAAP
Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the group has elected to measure the infrastructure and operational assets of Anglian Water at 1 April 2013, being the date of transition to IFRS, at their fair value and to use that fair value as their deemed cost at that date.

The fair value was calculated by estimating the value in use of Anglian Water, using a discounted cash flow model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value (RCV) of Anglian Water. The resulting fair value, less relevant working capital balances and other adjustments, was then allocated to the individual classes of infrastructure and operational assets.

Impact
At date of transition, the value of property, plant and equipment has been increased by £3,324.9 million, comprising an increase in infrastructure assets of £2,885.7 million and an increase in operational assets of £439.2 million.

At 31 March 2014, the impact was to increase property, plant and equipment by £3,279.8 million, and to increase deferred tax liabilities by £655.9 million. The impact on profit for the year to 31 March 2014 was to increase the depreciation charge by £45.1 million, with a deferred tax credit of £108.8 million, principally due the change in the tax rate used to calculate the deferred tax liability from 23% to 20%.

As a consequence of valuing Anglian Water's property, plant and equipment at fair value, the outstanding unamortised fair value adjustment made on the acquisition of the Anglian Water Group by the Osprey consortium in November 2006 has been reversed on transition to avoid double counting. This has resulted in a reduction in property, plant and equipment by £899.3 million at 31 March 2014, with a reduction in deferred tax liabilities of £179.9 million. The impact on profit for the year to 31 March 2014 was to reduce the depreciation charge by £11.9 million and increase the deferred tax charge by £29.7 million.

Also as a result of the decision to measure the infrastructure and operational assets of Anglian Water at their fair value, an impairment to goodwill of £489.6 million was charged to retained earnings on transition (see note 13). The net impact of the fair valuing of the infrastructure and operational assets of Anglian Water, less the reversal of the outstanding unamortised fair value adjustment and the associated impairment of the goodwill, was to increase net assets by £1,369.0 million at 1 April 2013.

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

iii) Capitalisation of Interest (IAS 23)

Material differences to UK GAAP

Under IFRS the group is required to capitalise that element of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the costs of that asset. Previously, under UK GAAP, borrowing costs were fully expensed as incurred. The change in policy under IFRS has been applied retrospectively.

Under IFRS the group capitalises the borrowing costs incurred for the construction of any qualifying assets during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Impact

Under IFRS net assets were £265.1 million higher after tax as at 31 March 2014 and profit before tax was higher by £13.1 million.

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

iv) Financial Instruments – Accounting for Derivatives (IAS 39)

Material differences to UK GAAP
Under UK GAAP, debt is carried at its hedged amount and the fair values of derivatives are not recognised in the balance sheet. Under IAS 39 'Financial Instruments: Recognition and Measurement', the default treatment is for debt to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the income statement.

This has the potential to introduce non-cash volatility to both the income statement and balance sheet. Therefore, for fair value hedges, IAS 39 allows changes in the recognised value of hedged debt that are attributable to the hedged risk to be adjusted through the income statement. This is only permitted where the hedge and debt is considered to meet the hedge accounting criteria defined by IAS 39.

In the case of cash flow hedges, movements in the fair value of derivatives are initially recognised within other comprehensive income until they can be recycled through the income statement to match the future income statement effect of changes in the hedged risk. In order to apply this treatment, it must be demonstrated that the derivative has been and will continue to be an effective hedge of the hedged risk within the underlying asset or liability. Any hedge ineffectiveness, provided it is within the range deemed acceptable by IAS 39, is recognised immediately within the income statement.

Interest rate swap agreements are used to manage interest rate exposure, while the group enters into foreign exchange contracts and foreign exchange options to manage its exposure to fluctuations in currency rates. All financial derivatives are recognised in the balance sheet at fair value.

Hedge accounting is applied where possible. Therefore, where derivatives that are designated as fair value hedges meet the hedge effectiveness criteria specified in IAS 39, changes in the recognised value of hedged debt that are attributable to the hedged risk are adjusted through the income statement to offset changes in the fair value of derivatives.

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity, and released to the income statement in the periods when the hedged item will affect profit or loss.

Where changes in the fair value of a derivative differ to changes in the fair value of the hedged item, the hedge ineffectiveness is recorded in the income statement.

New borrowings are stated at net proceeds received after the deduction of issue costs. Under UK GAAP the issue costs of debt instruments are amortised at a constant rate over the life of the instrument, whereas under IFRS the costs are amortised using the 'effective interest rate' method.

Impact
As a result of applying IAS 39, there was a net non-cash credit to the income statement of £85.6 million for the year ended 31 March 2014. This primarily related to RPI swaps, which although economically highly effective, do not qualify for hedge accounting under the strict definition of IAS 39. This means that there is the potential for future volatility through the income statement on these instruments although this will ultimately net to match the cumulative accounting impact under UK GAAP when the instrument matures.

The majority of the group's other derivatives currently qualify for hedge accounting under IAS 39.

The overall reduction in net assets at 31 March 2014, as result of IAS 39 and its impact on derivative financial instruments, is £285.7 million after the impact of deferred tax.

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

v) Deferred Tax (IAS 12)

<u>Material differences to UK GAAP</u>
FRS 19 'Deferred tax' permits, but does not require, deferred tax assets or liabilities to be discounted and as a result the group chose to discount its net deferred tax liability. However, IAS 12 'Income Taxes' does not permit discounting of deferred tax in any circumstances. This is of particular significance to a capital intensive utility business, such as Anglian Water, where any reversal of timing differences is likely to be deferred long into the future due to the long asset lives of its network assets.

Under IFRS, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Under UK GAAP the treatment of advance corporation tax (ACT) is specifically defined in FRS 16 'Current tax'. Subject to there being suitable deferred tax liabilities, the ACT asset is in effect recognised by offset against such liabilities. Under IAS 12, ACT is recognised as a deferred tax asset to the extent that it is probable that future taxable profit will be available against which the tax credit can be utilised. IAS 12 also states that it is probable that future taxable profit will be available where there are sufficient suitable timing differences that would reverse in appropriate periods. ACT has been surrendered to Anglian Water Services Limited from another Anglian Water Group Limited undertaking, but no liability for payment for the ACT has been recognised under UK GAAP due to the uncertainty over the liability arising. Under IFRS the surrendered ACT can be carried forward indefinitely and therefore, on transition to IFRS, a liability has been recognised in respect of payments to other Anglian Water Group Limited undertakings for the future utilisation of the ACT, in addition to continuing to recognise the ACT as a deferred tax asset.

<u>Impact</u>
The prohibition of discounting deferred tax liabilities resulted in an increase in the balance sheet deferred tax liability of £420.9 million at 31 March 2014 and a corresponding reduction in net assets. Recognition of deferred tax based on 'temporary' rather than 'timing' differences has increased the deferred tax liability by £83.2 million at 31 March 2014.

The deferred tax effect on each of the other IFRS adjustments to the balance sheet has been recognised, reducing the total deferred tax liability by £0.7 million.

vi) Goodwill (IAS 36)

<u>Material differences to UK GAAP</u>
FRS 10 'Goodwill and intangible assets' requires goodwill to be amortised over its useful life which, in respect of the goodwill recognised at the date of transition, has been estimated as being 20 years. Under IFRS, goodwill is not subject to annual amortisation, instead IAS 36 'Impairment of Assets' requires goodwill acquired in a business combination to be tested annually for impairment.

<u>Impact</u>
The requirement not to amortise goodwill has increased both profit before tax, and the balance sheet value of goodwill, by £68.7 million at 31 March 2014.

33. Transition to International Financial Reporting Standards (continued)

Notes to the reconciliations

vii) Other differences

All other differences between IFRS and UK GAAP are included within the 'Other' column. The main such adjustments are:

- The reclassification of investment properties from tangible fixed assets in accordance with IAS 40.
- In respect of joint ventures, IAS 1 'Presentation of Financial Statements' requires a single figure to be shown in the income statement for the group's share of its joint ventures profit after tax. This contrasts with FRS 9 'Associates and joint ventures' which requires separate disclosure of the group's share of joint venture turnover, operating profit, interest and taxation. The group has also assessed the classification of its holdings in subsidiary and joint ventures in accordance with IFRS 10 'Consolidated Financial Statements'.
- The finance charge for pensions under FRS 17 'Retirement benefits' comprises the expected return on pension scheme assets and an interest charge on the pension scheme liabilities, whereas IAS 19 'Employee Benefits' requires a single interest charge based on the net pension liability multiplied by the discount rate. In addition, IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' has been applied.
- The element of provisions for liabilities expected to be utilised within one year have been reclassified as current liabilities.
- The deferred tax impacts of all other adjustments.

viii) Group cash flow statement

The group cash flow statement prepared in accordance with FRS 1 presents substantially the same information as that required under IFRS. However, under IFRS there are certain differences from UK GAAP with regard to the classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, equity dividend paid, management of liquid resources and financing. Under IFRS, only three categories of cash flow activity are reported: operating activities, investing activities and financing activities.

Under IFRS, items which under UK GAAP would be included within management of liquid resources fall within the definition of cash and cash equivalents.

34. Subsidiary undertakings

The group's subsidiary undertakings at 31 March 2015 are shown below. Unless otherwise disclosed, all subsidiary undertakings are incorporated in the UK, are 100% owned, and with a share class of ordinary shares.

	Percentage holding	Country of incorporation
Owned directly by Osprey Acquisitions Limited		
AWG Parent Co Limited		
All subsidiary undertakings		
Alexander Morrison Limited		
Alpheus Environmental Limited		
Ambury Developments Limited		
Anglian Portfolio Management Limited		
Anglian Venture Holdings Limited		
Anglian Water (Ireland) Limited		Ireland
Anglian Water (Osprey) Financing PLC		
Anglian Water (Thailand) Limited		Thailand
Anglian Water Business (National) Limited		
Anglian Water Business Limited		
Anglian Water Direct Limited		
Anglian Water Facilities Management Holdings (UK) Limited		
Anglian Water Fleet Management Holdings (UK) Limited		
Anglian Water International Holdings Limited		
Anglian Water International Limited		
Anglian Water Overseas Holdings Limited		
Anglian Water Property Holdings (UK) Limited		
Anglian Water Services Financing Plc		
Anglian Water Services Holdings Limited		
Anglian Water Services Limited		
Anglian Water Services Overseas Holdings Limited		Cayman Islands
AW Creative Technologies Limited		
AW Licensing Limited		
AWG (UK) Holdings Limited		
AWG Business Centres Limited		
AWG Cambuslang Rental Portfolio Limited		
AWG Central Services Limited		
AWG Group Limited		
AWG Holdings Limited		Jersey
AWG Land Holdings Limited		
AWG Land Investments Limited		
AWG Outlet Centers Limited		
AWG Parent Co Limited		
AWG Property Developments (Ireland) Limited		Ireland
AWG Property Director Limited		
AWG Property Limited		
AWG Property Solutions Limited		
AWG Rails Services Limited		
AWG Residential Limited		
AWG Shelf 11 Limited		
Chester (1995) Limited	96.62%	
City Road Properties (Chester) Limited		
CS 3000 Limited		
CS Amenities Limited		
CS Management Company (2002) Limited		
Eastland Developments Limited		
Edmund Homes Limited		
Farm Gas Limited		
Gwent Euro Park Management Company Limited	99.83%	

34. Subsidiary undertakings (continued)

	Percentage holding	Country of incorporation
All subsidiary undertakings (continued)		
H2GO Limited		
Hamilton Park Construction (Plot 7D) Limited		
Hamilton Park Construction (Plot 7E) Limited		
Hamilton Park Developments (Plot 7C) Limited		
Hamilton Park Developments (Plot 7E) Limited		
Hopemangreen Residential Limited		
Leith Walk Properties Limited		
Macrocom (743) Limited		
Morco (3) Limited		
Morco (8) Limited		
Morco 2 Limited		
Morrison (Oldco) Limited		
Morrison Biggs Wall Limited		
Morrison Caspian Limited		
Morrison Glosha Limited		
Morrison Holdings Limited		
Morrison International Developments Limited		
Morrison International Limited		
Morrison Lema Homes Limited		
Morrison Leneghan Ireland Limited	60.00%	Ireland
Morrison Limited		
Morrison Project Investments Limited		
Morrison Properties Limited		
Morrison Property Investments Limited		
Morrison Rail Limited		
Morrison Shand Construction Limited		
Morrison Ventures Limited		
Northwood (Residential) Limited		Ireland
NVB Rathdowney Limited		Ireland
Rutland Insurance Limited		Guernsey
Shand Construction Limited		
Shawlands Developments		
Spreevale Limited		Ireland
Valuetype Limited		
Vector Morrison (Ghana) Limited	60.00%	Ghana

Independent auditors' report to the member of Osprey Acquisitions Limited

Report on the financial statements

Our opinion

In our opinion:

- Osprey Acquisitions Limited's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

Osprey Acquisitions Limited's financial statements comprise:

- group and company balance sheets as at 31 March 2015;
- group income statement and group statement of other comprehensive income for the year then ended;
- group and company cash flow statements for the year then ended;
- group and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the member of Osprey Acquisitions Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

17 July 2015