love every drop.

anglianwater

ANNUAL INTEGRATED REPORT 2019

Anglian Water Services Limited

glassdoor

2018 BEST PLACES TO WORK

EMPLOYEES' CHOICE

WINNER

Utility Week AWARDS 2018

Utility of the Year

PERFORMANCE HIGHLIGHTS

Anglian Water was awarded top prize at this year's prestigious Utility Week Awards

Anglian Water was named the UK's best place to work by review site Glassdoor

On track to become a net zero carbon business by 2030. Capital carbon is down **58%**

Regulatory leakage target beaten for the **8th YEAR** running

Named **#1** water company for customer service in Ofwat's Customer Experience Survey for the second year running

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“Our aim, supported by our long-term shareholders, is to enhance and support the communities we operate in. Every decision we make as a business considers the social and environmental impacts of our activities and we continuously seek new and innovative ways to improve the prosperity of our region over the longer term.”

IT IS OUR PRIORITY TO CREATE LONG-TERM VALUE

We anticipate the unique **challenges** we face and use our expertise to add value. See pages 22–23.

We measure our performance against our 10 **outcomes**. See pages 67–69.

What matters most to our **customers** and **stakeholders** matters to us. See pages 20–21.

Key risks to business performance are considered and addressed. See pages 72–89.

Our unique challenges help to inform our long-term **strategy** which comes to life through our **business model**. See pages 24–25.

WHAT WE DO

1 Our raw material is the water we collect from rivers and underground aquifers and store in our reservoirs.

2 We treat the water and put it into supply.

3 The water then comes back to us through our sewerage network before we treat it and return it to the environment.

WHAT WE HAVE DELIVERED

Reduced leakage

We have reduced leakage by **a third** since privatisation to reach industry-leading levels, with the water lost per kilometre of pipe at half the national average.

Reduced average bills

We have reduced average bills by **17%** in real terms since 1996 – versus a 3% rise in average industry bills.

Saved water

We have kept the amount of water we supply every day at **1989 levels** despite supplying an extra 600,000 properties – the equivalent of **saving 200 million litres** per day.

Cut our carbon emissions

We have cut our capital carbon emissions by **58%** from 2010 levels and reduced operational carbon emissions by **29%** in comparison to the 2015 baseline. This has driven innovation and efficiencies that feed into lower bills.

OUR LEADERSHIP TEAM

Anglian Water Services Board of Directors

From left to right:

SCOTT LONGHURST ED
Managing Director, Finance and Non-Regulated Business

JOHN HIRST, CBE INED A N R

DAME POLLY COURTICE, DBE, LVO INED N R

JAMES BRYCE NED N R

PAUL WHITTAKER INED N R

STEPHEN BILLINGHAM
Chairman of the Board INED N R

DUNCAN SYMONDS NED

NATALIE CEENEY, CBE INED A R

PETER SIMPSON ED
Chief Executive Officer

NIALL MILLS NED N R

ZARIN PATEL INED A N

KEY

ED	Executive Director
INED	Independent Non-Executive Director
NED	Non-Executive Director
A	Audit Committee
N	Nomination Committee
R	Remuneration Committee

Anglian Water Services Management Board

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

PETER SIMPSON
Chief Executive Officer

SCOTT LONGHURST
Managing Director, Finance and Non-Regulated Business

RICHARD BOUCHER
Group Strategy and Risk Director

SUSANNAH CLEMENTS
Group Director of People and Change

IAIN FRY
Director of Information Services

PAUL GIBBS
Director of Water Recycling

CIARAN NELSON
Director of Brand and Communications

ALEX PLANT
Director of Strategy and Regulation

IAN RULE
Director of Customer and Wholesale Services

CLAIRE RUSSELL
Group Legal Director/Company Secretary

JASON TUCKER
Director of Strategic Delivery and Commercial Assurance

PAUL VALLELEY
Director of Water Services

See full biographies in the Corporate Governance section on page 100.

OUR YEAR IN REVIEW: PERFORMANCE AGAINST THE OUTCOMES

Our Love Every Drop strategy is guided by the things our customers have told us are important to them. Our 10 outcomes were developed with customers in 2013 and describe the future we are working towards. We refreshed them in 2017 to stretch ourselves further and reflect how central our people are to delivering everything we do.

Innovating by exploring new ways to operate more sustainably and helping customers, business partners and employees to embrace our Love Every Drop strategy.

Collaborating and engaging with customers, colleagues and business partners, and inspiring them to take positive steps towards achieving our vision for a sustainable future.

Transforming behaviours by playing a leading role in reshaping how society values and uses water, and reducing our combined impact on the world around us.

CHAIRMAN'S WELCOME

This has been another great year for Anglian Water.

The Utility Week Awards are the gold standard for UK utilities. This year Anglian Water impressed expert judges with our strong leadership record, business transformation, long-term planning and all-round performance. They particularly praised us for being on the front foot in tackling some of the biggest issues facing us today – climate change and population growth – and selected us as Utility of the Year.

The employer review website Glassdoor named Anglian Water as the UK's best place to work, beating household names, Google, Ikea and Apple. After coming second to Google in the previous year, it is evidence that our focus on health, safety and wellbeing makes Anglian Water a great place to work.

Water companies have continued to be under the national spotlight in an environment where a growing set of complex social, political and environmental challenges are increasingly top of the political agenda. Therefore, it has never been more important to deliver strong performance for our customers.

The severe weather posed by the 'Beast from the East' and the prolonged hot, dry summer of 2018 presented us with significant operational challenges. But our staff and partners have shown exceptional performance in ensuring that our customers have continued to receive the quality service they deserve, with our performance among some of the very best in the industry.

Despite the challenges of the weather, our annual report illustrates another successful year, building on more than a decade of industry-leading performance – most notably in leakage and customer service. We show how our approach – to innovate, learn and share – has again seen us pushing the frontier in performance for the whole industry, enabling the continued growth and prosperity of our region.

We are proud to have a responsible and sustainable approach to our business that delivers for our customers, employees, stakeholders and the environment.

This year, like all water companies, we have put forward our Business Plan for 2020–2025 to the industry's regulator, Ofwat.

Our plan for 2020–2025 sets out how we will ensure that our region is resilient to the risks of drought and flood, while continuing to make environmental improvements and support sustainable growth in the UK's driest region – which is also one of the fastest growing. Our proposals build on extensive customer engagement that showed a clear desire for us to take action to increase resilience now.

Our Board has been fully engaged in the development of our plan. We have great confidence in its quality, the depth and breadth of customer engagement that has shaped it and the assurance processes that underpin it. Our plan has been written following the most extensive engagement we have ever had with our customers – over half a million customer interactions, 10 times more than for our previous Business Plan. This ongoing engagement has helped shape our plan like never before, ensuring we respond to changing customer expectations.

"We believe our track record continues to speak for itself. We are pleased that we were able to build on our 2017 Business in the Community Responsible Business of the Year award by being invited to join the Leading Utilities of the World and winning the Utility of the Year 2018 award in the same year. This is testament to all the hard work of our staff, partners and suppliers over the last year."

We are confident of the deliverability of our proposals. We have set out a record £6.5 billion investment programme to drive down leakage by a further 22 per cent, going from UK industry-leading to world-leading levels; a Water Resources Management Plan totalling £630 million, nearly eight times larger than the last plan period, which will further reduce the risk of water restrictions for all our customers; £783 million to support the environment, more than double the last plan period; £650 million to enable sustainable growth; and plans to support more than 475,000 vulnerable customers each year.

Given we are proposing to increase our total investment by one third, it is right that Ofwat provides strong scrutiny and challenge to our plan. We expect nothing less and we were pleased to see that Ofwat recognised us as the best in the industry for customer engagement. This gives us confidence that we are reflecting the needs and priorities of the customers we serve.

Our plan responds to the clear direction indicated by Government policy statements, following on from the National Infrastructure Commission's conclusions in its 2018 report *Preparing for a Drier Future*, and to the recent warnings from Sir James Bevan, Chief Executive of the Environment Agency, about the urgency of addressing the growing problem of water scarcity.

Our Business Plan is built on robust foundations. Our long-term proposals for 2020–2045, set out in our Strategic Direction Statement and in the changes we announced to strengthen transparency and remove complexity within our corporate structure, show our proactive approach to current and future challenges.

With the arrival of Natalie Ceeney in May 2018 and Zarin Patel in October 2018, our Board is now more diverse than ever.

We have commenced debt de-gearing through lower dividends agreed between our Board and our shareholders, and we were the first private water company to remove our Cayman Islands company, which had not been used since 2002 and provided us with no tax advantages.

Also, we continue to make good progress on our capital reinvestment programme of £165 million. We are sure that these measures will improve transparency and help maintain stakeholder confidence.

We believe our track record continues to speak for itself. We are pleased that we were able to build on our 2017 Business in the Community Responsible Business of the Year award by being invited to join the Leading Utilities of the World and winning the Utility of the Year 2018 award in the same year. This is testament to all the hard work of our staff, partners and suppliers over the last year.

On behalf of the Board, I would like to extend my thanks to our first-class team of talented employees and alliance partners, who work so hard to deliver the highest-quality service to our customers.

Stephen Billingham,
Chairman

CHIEF EXECUTIVE'S STATEMENT

Anglian Water has ended the year delivering an industry-leading performance on customer service, leakage and the environment – the things that matter most to our customers.

This performance is all the more significant given the challenges presented following the extreme winter at the start of the year and the exceptionally hot and dry summer.

We have also built on the successes of last year as Business in the Community's Responsible Business of the Year, and I am incredibly proud to have achieved not only Utility Week's 2018 Utility of the Year but also Glassdoor's 2019 Best Place to Work – beating the likes of Google, Microsoft and Ikea.

These successes belong to all staff at Anglian Water, whose relentless desire to keep on pushing the boundaries of performance for our customers, the communities we serve and the environment ensures they continue to be at the heart of our business.

Our customers and stakeholders rightly expect us to harmonise our focus on delivering a leading performance alongside playing a big role in tackling the wider social and environmental challenges of climate change, growth and resilience. During the past year some important questions have been raised about 'company purpose' more broadly. We welcome these questions and the opportunities they provide for Anglian Water to demonstrate how a sustainable, purpose-led approach such as ours is not only desirable but intrinsically linked to business success.

This is enshrined in our long-term Strategic Direction Statement and our five-year Business Plan that we submitted to Ofwat this year for 2020–2025. The plan has been built on our most extensive customer engagement ever. Over the past year we have also focused on laying the foundations for our plan – our most ambitious yet – to ensure the region is resilient and that we continue to make environmental improvements and support sustainable growth.

Peter Simpson,
Chief Executive Officer

Anglian Water has been at the heart of leading this approach across the industry, and I am delighted that all water companies have this year signed up to something we are calling our 'Public Interest Commitment'. It is a statement that commits the entire industry to continuing to deliver wider benefits to society, above and beyond the provision of clean, fresh drinking water.

Against this backdrop, we have delivered another year of consistently strong performance against our Outcome Delivery Incentives (ODIs). Water quality remains our first priority, and this was our best ever year with the lowest number of water quality contacts. Incidents of flooding from our sewer networks are also at record lows. There are two ODIs that measure our performance in this area, and this year we are beating our target for both with our best year to date.

We also continue to lead the way in leakage reduction. Since privatisation in 1989, we have reduced leakage by a third, and it is now at industry-leading levels – around half the national average based on the amount of water lost per kilometre of water main.

Maintaining this record proved a challenge this year – the severe weather resulted in an increase in the number of burst pipes, both on our infrastructure and on customer supply pipes. We redoubled our efforts and our employees have done an amazing job enabling us to meet our leakage target.

Delivering this performance year on year would not be possible without our approach to continually innovate. In October we unveiled our latest technological advancement in our war against leakage. Working with a developer, we have adapted a form of naval technology, which enables us to pinpoint and fix leaks faster than ever before, with much less disruption. This technology will be fitted across the network and will play a crucial role in our 2020–2025 plan to drive down leakage levels by a further 22 per cent.

Our leading performance reached a global stage this year at the International Water Association Awards, where we were praised for being at the forefront with our innovative approach. The Innovation Shop Window in Newmarket – a real live test bed for our supply chain and customers – won gold in the Performance Improvement and Operational Solutions category, and we won silver in the Smart Systems and the Digital Water Economy category for our Integrated Leakage and Pressure Management System (ILPMS).

The ILPMS is the first of its kind, bringing together over 30 detailed data sources, processing in excess of one billion data points so our water network can be viewed and managed via one simple graphical platform in near real time. The system has since been adopted by two water utilities in Italy, with a number of other companies from around the world looking to integrate this technology.

As well as measuring our performance against ODIs, Ofwat's Service Incentive Mechanism (SIM) measures a number of different aspects of service delivery and allows a comparison to be made between water companies. We are incredibly proud to have been named number one for customer service based on Ofwat's qualitative measures in SIM. It is a fantastic achievement and a real testament to the hard work and dedication of everyone who works in our business.

"We have also built on the successes of last year as Business in the Community's Responsible Business of the Year, and I am incredibly proud to have achieved not only Utility Week's 2018 Utility of the Year but also Glassdoor's 2019 Best Place to Work – beating the likes of Google, Microsoft and Apple."

Providing a great service to our customers is core to our business, so it is important we continue to adapt and enhance it. This year we have seen brilliant results from our 'Customer Experience Transformation' programme and 'Make Today Great' initiative. We have taken our front-line staff through challenging customer service training alongside driving improvements and developments in technology to our business processes to make life better for our customers, every single day.

We were also delighted to be recommended for certification to the British Standards Institution's BS 18477. This followed a formal six-day assessment against requirements for identifying and responding to consumer vulnerability. This demonstrates our commitment to continually improve our services to all our customers regardless of their personal circumstances.

In our future Business Plan, we have mapped out our plans to support more than 475,000 customers each year who have affordability and vulnerability issues – a huge jump in support for customers who may need additional help. Where extra support is needed, we will introduce a 'tell once' approach and work closely with the energy sector and other agencies to avoid these customers having to make multiple contacts about the extra support they may need.

While we are relentless in pursuit of industry-leading performance and set ourselves ambitious goals, this will not come at the expense of the environment. Anglian Water is the only water company to target, measure and report on its operational and capital carbon footprint and has done so since 2010. We are on track to deliver against our industry-leading carbon targets set for 2020, and we have worked with others in our industry in setting a sector-wide target to achieve net zero carbon emissions by 2030.

"Our success reaches far beyond regulatory compliance and meeting performance targets. We are proud to be a purpose-led business rooted in long-term sustainable ambitions continually examining our impact on the communities we serve. This purpose is embedded in everything we do."

During the last year, we also unveiled our first wetland treatment site, on the River Ingol in west Norfolk. The project has been such a success a further 34 sites have been proposed in our Business Plan for the five years from 2020.

The site works as a natural treatment plant. Millions of litres of used but treated water passes through the wetland every day, to be further filtered and cleaned by wetland plants, before it is returned to the River Ingol. Not only does the site do the job we need it to by removing excess chemicals from water naturally, removing the need for carbon-hungry infrastructure, but it has also created a haven for wildlife.

We were the first water company to make an ambitious pledge to tackle all plastic waste that is not reusable, recyclable or compostable – ridding our region of problem plastics by 2030. We do not have all the answers to this challenge, so our proposal brings together like-minded organisations from across the region, pooling our expertise to solve the problem.

Last year, Anglian Water was also the first European utility to issue a sterling Green Bond, and I am delighted to say this year we have issued our second Green Bond. We take an 'environment first' approach to everything we do, so all the capital investment we make in our water and water recycling assets meets the qualification tests of the Green Bond principles.

Continually delivering this leading performance rests on the passion and dedication of our people. To ensure this excellence continues, we work hard to create a culture where our colleagues feel supported and valued. That is what made this year's Glassdoor award especially important – it is an award voted for by the people who know Anglian Water best, our employees.

The safety and wellbeing of our employees is of paramount importance. Our health, safety and wellbeing plan – LIFE – links health, safety and wellbeing together and is focused on creating a culture where it is everyone's responsibility to take care of not just their own wellbeing but also that of their colleagues. This year our approach was recognised again by the Royal Society for the Prevention of Accidents with a

'Gold' 2018 Health and Safety award. We were also the first UK water company to be awarded the ISO 45001 standard for health and safety.

Building a pipeline of talent for the future is critical in any business, and we have invested in the development of a varied apprenticeship programme. We have fully embraced the introduction of the apprenticeship levy and have successfully targeted total recovery of our levy payments.

We now have 18 different programmes, ranging from HGV driving to a master's degree in strategic leadership. Joining forces with Capgemini, we are also able to offer undergraduate degree apprenticeships in digital skills, which are proving highly successful.

Our success reaches far beyond regulatory compliance and meeting performance targets. We are proud to be a purpose-led business rooted in long-term sustainable ambitions continually examining our impact on the communities we serve. This purpose is embedded in everything we do.

While our year as Business in the Community's (BITC) Responsible Business of the Year came to an end in July, our work as a responsible business grew. I have been working with BITC to develop a new, business-led place-making strategy. A national Place Leadership team has been established and, based on our experiences in Wisbech and BITC's work across the country, a strategy has been developed that has enabled three businesses to come forward to commit to driving community regeneration in three new locations.

This includes Lowestoft, where as Chair of BITC's Regional Advisory Board we are working with partner companies to support the people of the town to realise their vision of regeneration.

As a long-time supporter and more recently a trustee of the global charity WaterAid, I am also delighted to report that Anglian Water is the first water company to raise more than £1 million in a single year to support the fight for clean water, decent toilets and good hygiene around the world. My heartfelt thanks go out to all of my colleagues, and those of our alliance and supply chain partners, who have helped us achieve this incredible feat.

Looking forward, my expectation is that 2019 will continue to see a high level of focus on the water industry, especially given the current political debate about taking the sector back into public ownership. Importantly this coming year, we need to move on from talking about the undoubted benefits delivered since privatisation to continuing to tackle the issues that matter most to our customers in the 21st century.

As the journey for our industry continues, Anglian Water demonstrates – and the case studies at the start of this report bring to life – that by ensuring customers are at the heart of our business, a responsible and sustainable approach can deliver for our customers, employees, stakeholders and, crucially, the environment.

PUBLIC INTEREST COMMITMENTS IN ACTION

We are committed to delivering wider benefits to society, above and beyond the provision of clean, fresh drinking water. Here are some examples of how we are actively seeking to make a genuine difference to communities and the environment.

NATURALLY BETTER – GETTING A HELPING HAND FROM THE LOCAL ENVIRONMENT

Gone are the days when the default answer to a water quality challenge was to build a new bricks-and-mortar treatment facility.

On the outskirts of Ingoldisthorpe, Norfolk, we're proving that 'natural capital' solutions offer a positive return both for us and for the environment.

The challenge is one we face across our region: using the water recycling process to remove increasing amounts of phosphates and ammonia, to better protect the environment. These chemicals get into the waste water system through increased urbanisation and domestic products such as detergents, as well as from human and animal waste. It's our job to get them out again.

More traditional engineering solutions are available, and could do the job. But this enhanced treatment would come at both a financial cost to build and maintain and the carbon expense of increased energy consumption to run it.

So we set out to develop a solution that lets nature take the strain. Working with the Norfolk Rivers Trust, we've created a treatment wetland that we believe is the first of its kind in the UK.

It's wonderfully simple – and natural. After passing through the traditional water recycling process, millions of litres of water each day filters through four large, interconnected pools, each stocked with a range of native flora that local schoolchildren helped us plant. The plants remove the phosphates and ammonia, before high-quality water is returned to the River Ingol.

But the site does more than one job. As well as removing chemicals, the wetland provides a haven for breeding birds, amphibians, bats and water voles. Pollinators including bees are attracted by the flowering species, alongside dragonflies, insects, birds and mammals that rely on wetlands.

The site is a flagship for us. Wherever we can, we want to find more natural ways to deal with the problems we face, avoiding the construction of carbon-hungry infrastructure that our climate can ill afford. What's more, these solutions are often cheaper – so they're great for customers' bills, too.

We're watching closely to see just how successful the project can become. Perhaps it will filter out other nutrients, such as nitrates, and possibly even metals or microplastics? Time (and research!) will tell.

What's certain for now, though, is that getting a helping hand from nature is part of our future – and that benefits our region. That's why we're proposing many more sites like this in our Asset Management Plan for 2020–2025 (AMP7).

Read more in our blogs at www.anglianwater.co.uk/news

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GOING TO TOWN FOR WISBECH

Communities are built on connections. And when those are broken down, communities are often not far behind.

That's what our Chief Executive, Peter Simpson, discovered when he visited a community in East London as part of a Business in the Community (BITC) 'Seeing is Believing' visit, back in 2013. After being shown how a handful of businesses had revitalised that community, he came back to our region with a clear goal: what could we do, and where, to make a similar difference?

The answer lay right in our region's heart. By any measure, the Fenland town of Wisbech, Cambridgeshire, has had a tough few years. Despite being just a stone's throw from thriving Cambridge, Wisbech ranks poorly on national indices of health, education, crime and employment. The community told us they felt forgotten, left behind by more prosperous neighbours.

We had the ability to help, but this was never going to be a case of whistle-stop corporate benevolence: it's not our job to tell any community what it needs. But it is our job to listen and to help make goals achievable. So, working with our alliance partners, we set about creating a culture of collaboration that brought us together with Fenland District Council, educational establishments and community groups to support the community, including those not in employment, education or training.

Six years on, and not only are the results inspirational, but we've dramatically improved the flow of future talent into our business – a core aim given the high number of colleagues retiring in the next decade. It's a win-win collaboration.

Local groups now regularly occupy the refurbished Queen Mary Centre. Through a jobs club and annual careers fair, opportunities and support to get into work are shared with the community. Over 80 students have completed the construction and engineering courses we sponsor at the College of West Anglia. And we've supported the development of a garden town proposal that makes use of ground-breaking flood modelling to unlock opportunities for growth and regeneration, including reconnecting the town to the rail network and linking it with Cambridge.

But one swallow doesn't make a summer. So, when our year as Responsible Business of the Year concluded at the Royal Albert Hall in July 2018, we threw down the gauntlet to the thousands of other businesses attending the Gala Dinner. We asked, "Where is your Wisbech?" Dozens came forward, and the commitments quickly became a new Place Leadership Team. Three new locations in Manchester, Bradford and Lowestoft are shaping visions just like Wisbech, each supported by a group of companies working with BITC's Regional Advisory Boards.

We're still connected to Wisbech, and we will be for years to come. Peter, as BITC's Regional Ambassador, now chairs our Regional Advisory Board. We're in the vanguard of community regeneration and delighted that one of our alliance partners – Kier – has already seconded a Business Connector into Lowestoft, to see if we can see similar successes to those Wisbech has enjoyed.

Read more in our blogs at www.anglianwater.co.uk/news

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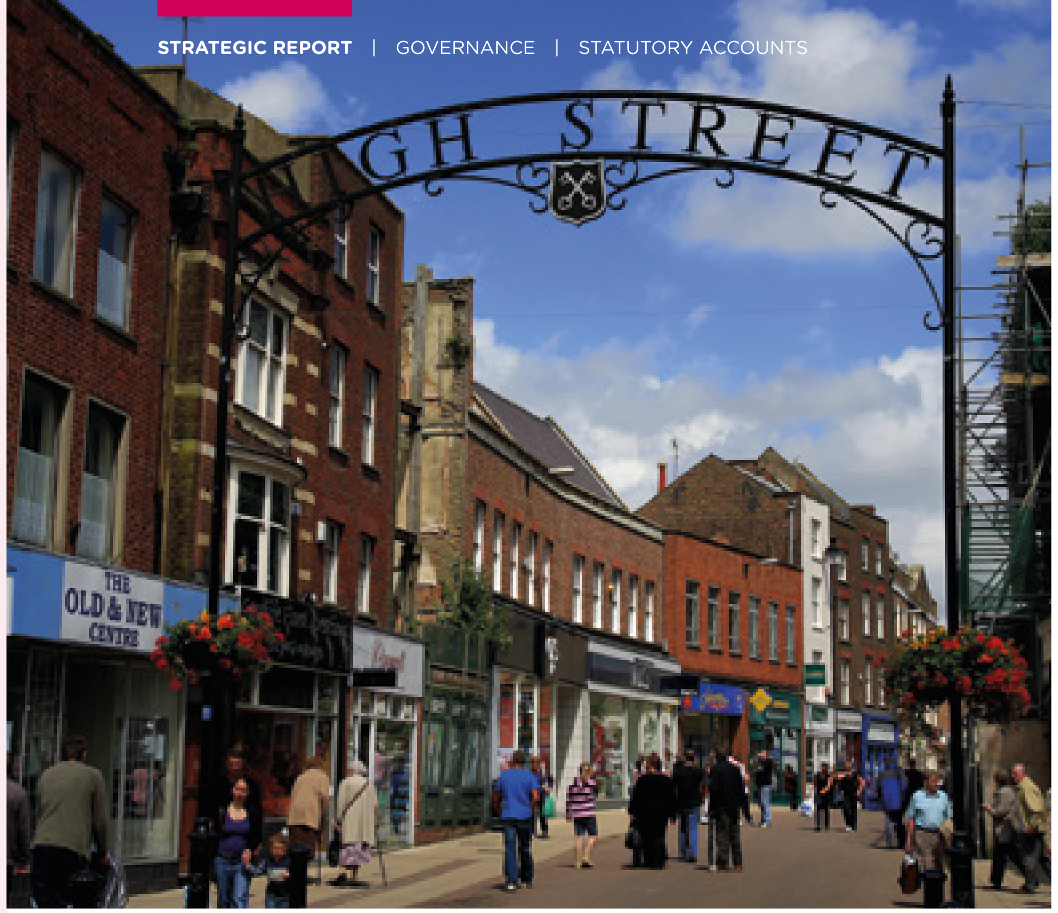

WATER TODAY, WATER TOMORROW

It's not just water companies and their customers that rely on a resilient supply of good quality water. Farmers, industry, the environment and wildlife will need enough in the future to meet growing needs.

But nobody wins if these demands are set against each other. That's the principle behind Water Resources East (WRE), a pioneering, multi-sector water management programme in the East of England. The partnership's shared objective is to safeguard a sustainable supply of water, resilient to future challenges such as climate change, enabling the area's communities, environment and economy to reach their full potential.

We've been driving the development of WRE for a number of years and this year appointed Dr Robin Price as its interim managing director. As well as developing the organisation's business plan, Robin is establishing the company's board, appointing permanent members and setting up a collaborative governance structure that results in everybody's interests being given full consideration.

Recognising the need for this cross-sector collaboration, we've been keen to see WRE flourish – but we also recognise the significant value that independence and autonomy bring. So this year we will be officially establishing WRE as an independent, not-for-profit company, taking our seat as a board member. We'll retain our financial commitment, too, investing in the pioneering work WRE is set to do over the next decade.

That pioneering work has already started. This year, WRE's work included supporting the development of a National Planning Framework alongside the Environment Agency and other regional water resource groups. Aligned and cohesive water management and planning strategies are emerging, which water companies and other sectors can align with when planning for the longer term.

WRE has also submitted a number of Environmental Land Management plans to the Department for Environment, Food and Rural Affairs (Defra), to develop our catchment management approaches. These plans include enhancing Sites of Special Scientific Interest, increasing natural capital on large farming estates and restoring essential fenland areas.

Success isn't all in the technical science, though. WRE's public engagement means others are coming on the journey with us, creating a movement to secure our region's water supply for tomorrow as well as today.

Read more in our blogs at www.anglianwater.co.uk/news

LISTENING AND ENGAGING WITH OUR COMMUNITY

Look out for our stakeholder voices throughout the report

Listening to our stakeholders is vital to ensuring the successful development and execution of our Business Plan and strategic priorities.

We aim to build and strengthen relationships with the entire community we serve to deliver a genuine understanding of their priorities and challenge ourselves to go further.

RT HON STEPHEN BARCLAY MP

Secretary of State for Exiting the European Union, Member of Parliament for North East Cambridgeshire

“The place-based approach that Anglian Water has developed in Wisbech has rightly been recognised as a template for other major companies to adopt in communities across the country. Through working with the College of West Anglia Wisbech campus, it has demonstrated a long-term commitment through the development and funding of its apprenticeship programme.

“Perhaps of most value has been the willingness of its most senior leadership to invest significant personal time engaging in a meaningful way across the community, which has injected fresh confidence and ideas into the future development of our town.”

See pages 16–17 for more

SANDY RUDDOCK

Co-Founder and Owner, Scarlett & Mustard Ltd

“As a business leader, I know that Anglian Water’s long-term plans deliver the resilience businesses like mine need to be confident of long-term growth. It’s the reassurance we need to encourage investment.”

See pages 25 and 81 for more

DR MIKE KEIL

Head of Policy and Research, Consumer Council for Water

“There are some impressive things going on in and around Newmarket. There is no shortage of eye-catching gadgets and technology, but for me the most impressive thing is how Anglian Water is engaging and motivating real people to save water.”

See pages 11, 33, 36 and 42 for more

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JOHN DUGMORE

CEO, Suffolk Chamber of Commerce

“Suffolk Chamber of Commerce knows how seriously Anglian Water engages with its many stakeholders, including the business community here in Suffolk. As a strategically minded company keen to constantly improve its services and deliver on its long-term capital programme, Anglian Water has an impressive and enduring approach to engagement.”

See pages 8–9 for more

KAREN STAPLES

Regeneration Programme Manager, East Suffolk Council

“Anglian Water has provided invaluable input to our place-making work here in Lowestoft. As a key partner on our ‘Thinking Places’ Steering Group, it is helping us to create a strategic approach for promoting Lowestoft, highlighting our key assets and improving our potential for inward investment.”

See pages 16–17 and 50 for more

RUTH CARVER

Chief Executive, Greater Lincolnshire Local Enterprise Partnership

“Greater Lincolnshire is a great place to live, work and do business. As a Local Enterprise Partnership, we know that having the right infrastructure in place is absolutely crucial for growth to really flourish, and we’re confident that Anglian Water is committed to facilitating sustainable growth in our region.”

See pages 35 and 38 for more

JAMES PALMER

Mayor, Cambridgeshire & Peterborough Combined Authority

“This is one of the fastest-growing regions in the UK, and this growth underpins not just the success of our region, but the prosperity of the country as a whole.

“Long-term planning around our infrastructure is absolutely critical in supporting this growth, which is why I’m pleased to see such ambitious resilience plans from Anglian Water that consider the needs of our businesses and communities over the next 25 years.”

See pages 25 and 81 for more

JEFF HALLIWELL

Independent Chair, Customer Engagement Forum (CEF)

“The CEF – Anglian Water’s Customer Challenge Group – is a totally independent group. Our role is to challenge the Company – right up to and at Board level – to ensure key business decisions meet the priorities of household and non-household customers and key stakeholders, and their willingness to pay for services in these challenging economic times. We believe this constructive engagement will help lead to a better outcome for consumers over the long term.

“We are robust in our challenges to Anglian Water and it is always constructive in its response. Anglian Water has been open in its engagement with us and has listened carefully to our views, as well as those of its customers, gleaned through a very comprehensive customer engagement process.”

See pages 8–9, 35 and 56 for more

HOW WE'RE ADDRESSING OPPORTUNITIES AND CHALLENGES

We have identified the main factors that affect our business now and will affect it in the future.

ISSUES COMMON TO THE WHOLE WATER INDUSTRY

REACHING BEYOND REGULATORY COMPLIANCE AND PERFORMANCE TARGETS

We are operating in an environment where complex social, political and environmental challenges are increasing.

Our customers and stakeholders rightly expect us to deliver an excellent service while also playing a big role in tackling these wider social and environmental challenges of climate change, growth and resilience.

Company performance reaches far beyond regulatory compliance and meeting targets. We are proud to be a purpose-led business rooted in long-term sustainable ambitions continually examining our impact on the communities we serve. This purpose is embedded in everything we do. Anglian Water continues to demonstrate how a responsible and sustainable approach such as ours is not only desirable but intrinsically linked to business performance.

We have been at the heart of leading this approach across the industry and this year were instrumental in the creation of the water industry's Public Interest Commitment, setting new standards for a social contract with customers and stakeholders. It's a statement that commits the entire industry to continuing to deliver wider benefits to society, above and beyond the provision of clean, fresh drinking water.

PLANNING FOR THE LONG TERM

The nature of the water industry requires us to take the long view – planning years, and even decades, ahead on issues including water resources, the maintenance of assets, advances in technology and closing the skills gap.

We look to tackle these long-term issues in collaboration with others. That includes delivering our capital programme through long-term alliances with our contractors and suppliers, and joint research and planning on issues like drought resilience. Where possible, we look to lead and shape the regional and national conversation to secure the action and investment needed for a sustainable future.

AFFORDABILITY AND CUSTOMER EXPECTATIONS

Customer expectations have been transformed in recent years, a change accelerated by social media. Customers compare our service with that of the top UK brands and they expect us to be as good, if not better.

They also expect us to cope with the challenges listed here while ensuring that bills remain affordable and the costs of increasing our resilience are shared fairly between current and future customers. We will need to invest in both new supplies and innovative approaches to demand management.

Climate change, population and housing growth and the need to protect and enhance the natural environment are all challenges that are particularly acute in our region, where they combine to pose a unique challenge.

ESPECIALLY ACUTE IN THE EAST OF ENGLAND

CLIMATE CHANGE

Ours is the driest region in the UK, and particularly vulnerable to climate change – low lying, with a long coastline and low rainfall. Water resources are already scarce, and climate change could reduce them further.

Yet at the same time we face the threat of more frequent flooding in this low-lying part of the country due to more intense rainfall and rising sea levels.

These challenges have been amplified over the last year, when we were faced with severe weather during the 'Beast from the East', followed by the record-breaking and prolonged hot, dry summer.

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, working to reduce our carbon footprint and increasing the amount of renewable energy we generate.

ENVIRONMENTAL PROTECTION

Our business depends on a healthy environment. The need to protect it, combined with our low rainfall, means that in many places we will have to take less water from rivers and aquifers to treat and supply. This could mean a loss of more than 150Ml/d by 2025.

We are working to ensure that our abstraction from rivers and aquifers is sustainable, investing in river restoration projects, reducing pollutions through continual investment in our water recycling operation and protecting raw water quality with our catchment management approach – working in partnership with the agricultural sector and other landowners.

POPULATION AND ECONOMIC GROWTH

Our region is one of the fastest growing outside of London. Growth projections exceed 200,000 new homes over the next five years – without factoring in the proposed Oxford-Cambridge Arc. By 2040, the region's population may grow by a further million people, and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services.

STRATEGIC REPORT | GOVERNANCE | STATUTORY ACCOUNTS

OUR BUSINESS MODEL
CREATING VALUE FOR OUR COMMUNITIES

We support and promote the wellbeing of communities through our sustainable business model. It is structured to create long-term value for customers, employees, investors, business partners and the wider community.

PRESSURES FACING THE INDUSTRY

- CLIMATE CHANGE
- PLANNING FOR THE LONG TERM
- POPULATION AND ECONOMIC GROWTH
- MARKETS, STRUCTURE AND FINANCING OF THE INDUSTRY
- ENVIRONMENTAL PROTECTION
- AFFORDABILITY AND CUSTOMER EXPECTATIONS

HOW WE TAKE ACTION

SIX CAPITAL DECISION MAKING

We are creating a new approach that will ensure we always consider our wider impacts in our decision making, balancing financial objectives with social and environmental priorities.

PEOPLE | FINANCIAL | INTELLECTUAL | SOCIAL | MANUFACTURED | NATURAL

ENSURING SUCCESSFUL RESULTS

What makes us different and helps us to create long-term value is our unique culture, collaborations, innovative approach, social focus and robust leadership.

CULTURE | COLLABORATIONS | INNOVATION AND DIGITAL | STRATEGY AND PLANS | LEADERSHIP | SOCIAL CONTRACT

THE OUTCOMES WE DELIVER

THE POSITIVE IMPACT WE MAKE

These are our long-term goals, shaped by what matters most to our customers. For more information see our Strategic Direction Statement 2020–2045 at www.anglianwater.co.uk/sds.

- Make the East of England **resilient to the risks of drought and flooding**
- Enable **sustainable economic and housing growth** in the UK's fastest-growing region
- Be a **carbon neutral business** before 2050
- Work with others to achieve **significant improvement in ecological quality** across our catchments

SEEKING AND ACTING ON FEEDBACK FROM OUR STAKEHOLDERS

GLOBAL DRIVERS FOR CHANGE – UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

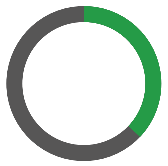
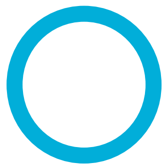
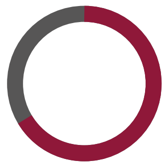
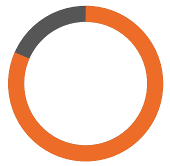
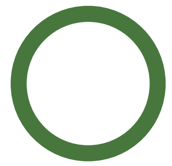
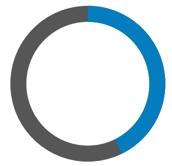
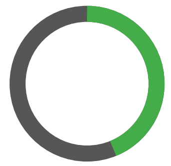
ALIGNING OUR GOALS WITH THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

We want to demonstrate how we are contributing to wider societal goals by aligning our activities and the outcomes we deliver to the UN Sustainable Development Goals (SDGs). We are working in the spirit of all 17 goals, but we have mapped our work to the 10 where we have the most material impact at the level of the targets. These are currently being reviewed in line with our next five-year Business Plan.

STRATEGIC REPORT | GOVERNANCE | STATUTORY ACCOUNTS

"The SDGs are a fantastic way of showing how our Business Plan for supporting sustainable growth in the East of England can directly contribute to a global movement – it helps us to consider all aspects of sustainability in our decision making."

PETER SIMPSON,
CHIEF EXECUTIVE

	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	6 CLEAN WATER AND SANITATION	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND
Relevance of SDG to our business (proportion of targets that we can directly contribute to)										
Example target of material interest (we have mapped our engagement against the 169 targets under the 17 SDGs)	**3.9** By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	**4.4** By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	**6.5** By 2030, implement integrated water resources management at all levels	**8.4** Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation	**9.1** Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	**11.7** By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities	**12.8** By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature	**13.2** Integrate climate change measures into national policies, strategies and planning	**14.1** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	**15.5** Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
Underlying potential for negative impact	Our operations can cause pollution if we get things wrong	We know we have a future skills gap	Uncoordinated water management can lead to deficits and impacts on the environment	We build and operate a large network of assets and infrastructure that use energy and resources	Without strategic planning the lack of water can be a blocker to growth	We manage large areas of open space to deliver our service	Without knowledge our customers are unable to act sustainably	We are one of the biggest energy users in the East of England and operate in a region that is particularly vulnerable to climate change	Our operations can cause pollution if we get things wrong	Our operations have a large footprint within the natural environment
Examples of current activities that positively support the target	Pollution Watch and Keep It Clear **Page 36**	Education and Wisbech **Pages 16–17, 52**	Water Resources East **Pages 18–19**	Natural wetlands – Ingoldisthorpe **Page 14**	SuDS: Capital delivery **Pages 38, 65**	Recreation and water parks **Page 52**	Water efficiency and capital carbon **Pages 42, 58, 64**	Carbon neutrality **Page 64**	Catchment and coastal management **Pages 38, 62–63**	Biodiversity **Page 61**
How the SDG target aligns to our outcomes	Safe, clean water	Positive impact on communities	Supply meets demand	A smaller footprint	Investing for tomorrow	Positive impact on communities	Positive impact on communities	Investing for tomorrow	Flourishing environment	Flourishing environment

FINANCING OUR BUSINESS

Anglian Water Services Limited is a private limited company.

Ownership and company structure

Anglian Water Services Limited (AWS) is the principal subsidiary of Anglian Water Group Limited (AWG). The AWG Board consists of six investor representatives; the Chief Executive Officer; the Managing Director, Finance and Non-Regulated Business; and a Non-Executive Chairman.

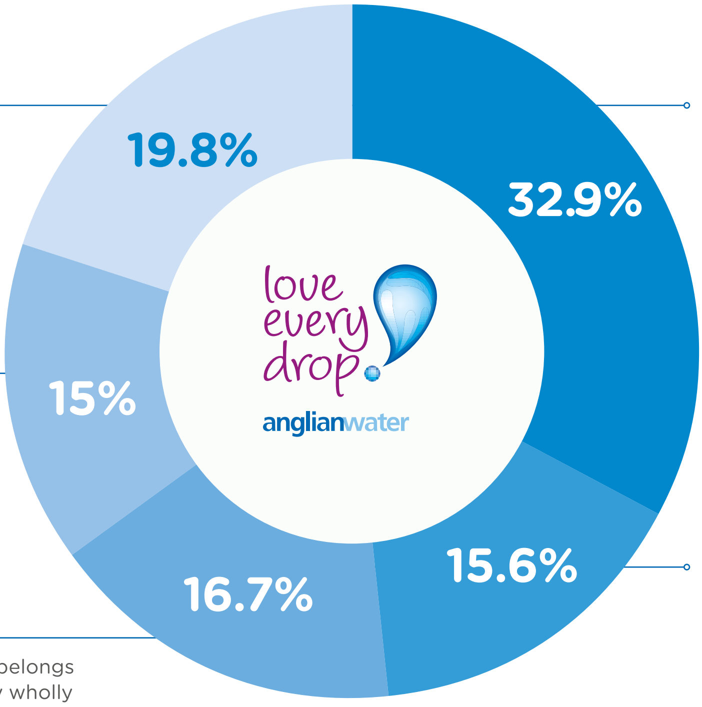
Our corporate structure

AWG is owned by a consortium of investors, as shown below. The complete holding company structure is presented in the diagram opposite and the principal companies in the structure are explained below.

When AWG was acquired by investors in 2006, it 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 that is held by our shareholders in proportion to their respective shareholdings, and they are entitled to 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 per cent owned, and currently none of these companies has any external debt. Three of the companies are UK registered and tax resident. AWG Holdings Limited is Jersey registered and Irish tax resident.



IFM INVESTORS is a global institutional fund manager owned by 27 Australian pension funds, specialising in infrastructure, private equity, debt and equity investments. *Origin: Australia*

CAMULODUNUM INVESTMENTS LTD is a joint investment vehicle for Dalmore Capital and GLIL Infrastructure. *Origin: UK*

INFINITY INVESTMENTS S.A. belongs to a group of entities ultimately wholly owned by the Abu Dhabi Investment Authority and focuses on infrastructure investments in Europe. *Origin: Luxembourg*

THE CANADA PENSION PLAN INVESTMENT BOARD (CPPIB) is managed independently of the Canada Pension Plan by experienced investment professionals to help sustain the future pensions of 18 million Canadians. *Origin: Canada*

COLONIAL FIRST STATE GLOBAL ASSET MANAGEMENT is the consolidated asset management division of the Commonwealth Bank of Australia group. *Origin: Australia*

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 UK Parent Co 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. All companies within the AWSFG are UK-registered and tax resident companies.

Anglian Water Services Limited is the regulated entity that trades as Anglian Water, managing our water and sewerage network and serving over six million customers. It is 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 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 Services Financing Group (AWSFG)

Direct subsidiary

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

SMART BUSINESS

RESILIENT BUSINESS

In order to deliver the continuous service our customers expect, we must ensure that our business is designed to cope with disruptive events, especially those associated with increasingly common severe weather conditions.

To meet this outcome...

We must ensure our assets are designed to cope with the most severe events, such as drought and flooding, especially as climate change will lead to an increased frequency of such events.

Performance highlights

- Reduced leakage by a third since privatisation in 1989
- Beaten our regulatory leakage target in 2018/19 for the eighth year running
- Integrated Leakage and Pressure Management system, bringing together information about the network, making it easier to spot and control leakage and to better target our work
- Achieved international award
- Amassed over 1,000 volunteers in Anglian Water Force, our quick response team

LEAKAGE (three-year average)

This is the volume of water escaping from our pipes each day.

TARGET
192

ACTUAL
186Ml/d

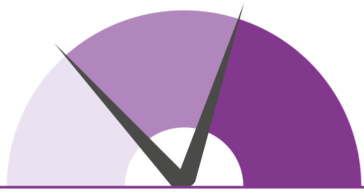
LOW PRESSURE

The number of properties not receiving reference-level pressure.

NUMBER OF PROPERTIES

257
TARGET
(BY 2019/20)

287
ACTUAL



INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.

TARGET
12 mins 00 secs

ACTUAL
8 mins 44 secs

Severe weather events, including flooding, the risk of drought from too little rainfall and the rapid changes in conditions from a freeze–thaw event, are just some of the many challenges we face as a business as we focus on continuity of supply and service 24/7, 365 days of the year. Events like these require meticulous resilience planning, and Anglian Water has well-rehearsed policies, plans and procedures for responding to ensure we minimise any risk to customers. The best incidents are those that the customer did not even know happened!

A highly commended resilience strategy

Ensuring we have extra pairs of hands, with the right skills and knowledge, in our business when we most need them is a core part of our overall resilience strategy.

We now have over 1,000 recruits to the Anglian Water Force, a team of volunteers from our business and our alliance partners who are ready to respond quickly in the event of an incident. To support this we also run a comprehensive in-house programme for training those likely to be involved in an incident.

Our approach was shortlisted as a finalist at the 2018 Utility Week Awards.

Anglian Water continues to be certified to ISO 22301, an international standard in business continuity management, which recognises that we have the plans and systems in place to keep our business running.

We also actively engage across our 13 Local Resilience Forums and the Multi-Agency Support Group for the East of England in planning and risk mitigation. This collaboration is vital to ensure interdependencies across agencies are known and mitigations are prepared to ensure we provide the best possible outcomes for the communities we serve. Over the last year examples of this work include a multi-agency cyber security exercise, planning for disruptions from severe weather and planning for the risks associated with Brexit.

We have completed our AMP6 programme of capital projects to improve security and ensure compliance with government standards for operational assets at our water and water recycling sites.

Our ultimate aim is to increase our resilience as a business so that, no matter what, we keep taps running. Our colleagues are a key part of this – we're increasing awareness and upskilling individuals to ensure colleagues across our business can actively contribute during an emergency.

Tackling leakage reduction

We continue to lead the way in leakage reduction. Since privatisation in 1989, we've reduced leakage by a third, and it is now at record low levels – around half the national average based on the amount of water lost per kilometre of water main. As part of our drive to improve our resilience to the impacts of drought and climate change, we set ourselves the ambitious target of reducing leakage by 10.4 per cent, or 20Ml/d, to 172Ml/d between 2015 and 2020.

The severe weather over the past year has been a significant challenge. The Beast from the East at the start of 2018, followed by an unprecedented hot, dry summer, increased the number of burst pipes, both on our infrastructure and on customer supply pipes, which has led to increased leakage levels throughout the year. This impact has meant that this year our leakage result was up on last year's at 191Ml/d, bringing our three-year rolling average leakage to 186Ml/d. This result is inside our ODI target for leakage, which measures performance using this three-year rolling average and needs to stay below 192Ml/d. This is the eighth year running we have beaten our regulatory leakage target.

A leading strategy

Despite Anglian Water already leading the way in tackling leakage, the impacts of severe weather linked to climate change coupled with population growth place growing demands on our water resources, so it's important we evolve our strategy to meet the challenges we are facing today and will face in the future. Leakage remains our customers' top concern and represents an emblematic issue for them. We are committed to continuing to push the frontier in tackling leakage for our customers.

The Beast from the East posed a challenge in early 2018, increasing the number of burst pipes.

Our strategy can be broken down into two key pillars:

1. Early detection

Our proactive leakage detection work aims to identify issues before customers are aware of them. An example of this work is the mass deployment of noise loggers to identify leaks before they become visible. We deploy up to 8,000 'lift and shift' noise loggers every day around our network, using them in partnership with dedicated follow-up repair teams.

Our leakage monitoring systems are operational at all times. We now have a dedicated team to manage this work, along with diagnosing, designing and delivering best-value solutions to issues that arise when the network doesn't respond as we have predicted it will.

This team also coordinates investment needs from an operational perspective. Our Integrated Maintenance and Repair alliance partners, Kier and Clancy Docwra, have 102 (up from 96 last year) two-man teams around the region. This year they fixed more than 5,600 burst mains, an increase of 13 per cent on last year, reflecting the effect of the weather on our network.

2. Proactive prevention

This is achieved by a combination of intensive leakage detection work, network optimisation and installation of the latest smart sensors on our network to tell us where we have issues.

- **Intensive Leakage Detection teams** – we now have three dedicated teams with the mandate, training and equipment to track down hard-to-find leaks and to proactively target areas where we believe pipes may be coming to the end of their useful life. Once a leak is found, the teams can accurately measure the amount of water being lost and gauge how urgently repairs are needed and whether the pipe needs replacing. This year the teams saved a total of 4.85 Ml/d.
- **An Optimised Water Network** is one in which bursts are prevented through better management of pressure in the pipes. The approach aims to deliver a 'calm' network that provides a reliable and resilient service through a reduction in leaks, low pressure and interruptions to supply while improving serviceability and water quality. Over the first four years of this Asset Management Plan (AMP6), so far this workstream has been responsible for a reduction of 11.45Ml/d in leakage across the region, saving 8.75Ml/d in the first three years with a further 2.7Ml/d in the fourth year.
- **Smart sensors** – working in collaboration with a technology developer, we have developed a new acoustic sensor technology for identifying leaks much more quickly than with traditional approaches. This permanent

The war against leakage

The impact of the weather has been a significant challenge. The Beast from the East at the start of 2018, followed by an unprecedented hot dry summer, increased the number of burst pipes, both on our infrastructure and on customer supply pipes, which has led to increased leakage levels throughout the year.

As a result, a significant recovery plan was implemented, including deploying additional resources to look for leaks (increasing from 50 to 150 individuals) and an increase in teams repairing leaks (from 96 up to 102).

Despite the impact of the severe weather, we are still on track to deliver significant leakage savings for the rest of AMP6 and into AMP7 and our continued investment in people and equipment stands us in good stead to achieve this.

noise logging approach uses data science techniques to optimise deployment and analysis of sensors. We have deployed 1,000 sensors across 30 district meter areas. In these areas a greater number of leaks and bursts have been repaired before customers were aware that something may have happened.

- **Integrated Leakage and Pressure Management (ILPM) system** – our ILPM system brings together information about the network, making it easier to spot and control leakage and to better target our work.

Interruptions to supply

When supplies are interrupted through a burst or other problem, we take a customer-first approach, and our first priority is to restore supply, reducing the amount of time a customer is left without water. Our performance is the subject of an ODI that measures the number of customers left without water for more than three hours.

A formula converts the length of interruptions and the number of customers affected into an average time for the region. By the end of 2018/19, our target was 12 minutes, in order to avoid penalties.

Despite a challenging year we have maintained momentum and stayed on track, achieving an average interruption to supply time of 8 minutes and 44 seconds.

This performance is testament to our meticulous planning, our collaborative approach with other parties and organisations, and the dedication and experience of our colleagues.

The utilisation of technology is also a key part of this success; last summer we successfully trialled mobile pressure loggers to monitor the return of water supplies following an interruption. At the same time, we are looking to install intelligent alarms on our permanent pressure loggers that will give early warning of problems, solving them before customers are even aware of them.

Our leading performance reached a global stage this year at the International Water Association Awards, where Anglian Water was praised for being at the forefront of innovative approaches to solving some of the global challenges we face. We are one of the few utility companies that operate an open innovation strategy. The Innovation Shop Window in Newmarket – a real live test bed for our supply chain and customers – was winner in the Performance Improvement and Operational Solutions category, and we won silver in the Smart Systems and the Digital Water Economy category for our ILPM system.

The ILPM system is the first of its kind, bringing together over 30 detailed data points, processing in excess of one billion data points so our water network can be viewed and managed via one simple graphical platform in near real time. The system was developed by Schneider Electric and CGI working with our internal teams and has since been adopted by two water utilities in Italy, with a number of other companies from around the world looking to integrate this technology.

In the coming year we will continue our fight against leakage. We will retain elevated team levels to ensure that we can respond quickly to any weather-related events that cause an increase in leaks, and we are bringing forward additional investment to expand our smart water networks programme so that 6,000 fixed noise loggers are installed, covering 20 per cent of the network.

Restore, repair, recharge

A further six technicians have joined our dedicated Restoration team this year, bringing the number to 27, split into three teams of nine around the region. All will be trained to drive the water tankers and to use a variety of equipment and techniques, including temporary overland pipes to keep people supplied. We have invested in technology to keep small numbers of properties on water during long-duration events, such as pumped collapsible combination boxes and power bowsers, mimicking what we would do in a large event, but scaled down to ensure all customer needs are met.

Overall the Restoration team continues to play a key role in working towards achieving our Interruptions to Supply goals, as well as providing an excellent service to our customers.

INVESTING FOR TOMORROW

Customers expect us to be prepared for future challenges. This means proactively maintaining our water and water recycling assets.

To meet this outcome...

We must plan for the long term, making timely investments to ensure intergenerational equity between current and future customers.

Performance highlights

- Outperformed many of our targets and on track to be in an overall reward position against our ODIs for AMP6
- Submitted £6.5 billion investment plan for 2020–25 to Ofwat, which proposes a 30 per cent increase in the investment programme on the current five-year period
- Made huge strides towards becoming a carbon neutral business by 2050; set net zero carbon target for 2030
- Continued to see excellent progress in pollution incidents with a reduction this year and well within our ODI target

POLLUTION INCIDENTS

This is the total number of pollution incidents classed as Category 3 by the Environment Agency.

TARGET 298

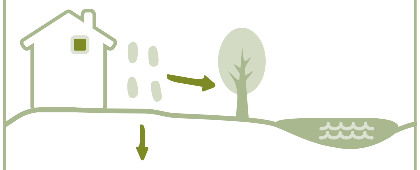
ACTUAL 185

PERCENTAGE OF SEWERAGE CAPACITY SCHEMES USING SUSTAINABLE SOLUTIONS

After delivering 23 schemes since the start of the AMP, we are on track to meet our 2019/20 target.

TARGET (BY 2019/20) 25%

ACTUAL 41%



INTERNAL FLOODING

This is the number of properties flooded internally by water from our sewers.

NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

TARGET (BY 2019/20) 448

ACTUAL 342

Our capital expenditure programme is focused on maintaining and improving our assets and services, ensuring we can deal with growth, and on meeting water quality and environmental standards. For AMP6, we have committed to a £2 billion programme of investment, delivered by the five delivery alliances we put in place at the start of this AMP, alongside our newest alliance, which delivers our Information Systems programme. Together, these alliances will help provide our services until 2030.

EXTERNAL FLOODING

This is the number of external areas flooded by water from our sewers.

NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

TARGET (BY 2019/20) 6,159

ACTUAL 4,148

Our alliances operate with an unparalleled degree of integration and alignment, and the opportunity for longer-term collaboration. As we prepare for AMP7, this will be further enhanced as we embed alliance partners into our Water and Water Recycling business streams and give our operational teams control of total expenditure (totex) budgets to further incentivise efficient and sustainable solutions for our assets throughout their operational lives.

Along with being on target to meet our 15 per cent efficiency savings target (compared to our AMP5 cost base), we are also outperforming many of our targets and are on track to be in an overall reward position against our ODIs for AMP6. Our success has allowed us to reinvest savings back into new initiatives to get the business fit for AMP7.

Looking ahead

For the remainder of AMP6, we will continue to invest to increase the resilience of our services and protect customers' supplies. This will include work to:

- improve our ability to move water around the region
- protect our existing supplies through improved detection and repair of leaks
- support growth in our region and work with developers
- ensure a continuous supply for our customers.

There will also be continued investment to safeguard customers' supplies in vulnerable areas of our region, both alone and in partnership with other water companies.

Anglian Water is one of the founding members of The Prince of Wales's Corporate Leaders Group, a collective whose members are committed to addressing their climate impact and ensuring resilience to the ever-increasing effects of climate change. We have already made huge strides towards becoming a carbon neutral business by 2050. In 2010 we set industry-leading carbon targets. By 2015 we had already beaten those targets. This year Anglian Water signed an industry-wide 'Public Interest Commitment', which includes a new goal for the whole sector to achieve net zero carbon emissions by 2030.

Keeping our assets fit for purpose

A good service relies on well-maintained assets – the pipes, pumps, works, equipment and buildings. Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in the maintenance of assets. A number of performance commitments have been put in place to monitor this, with substantial penalties and rewards dependent on performance.

Price Review process

This past year has been a key year in the 2019 Price Review process, seeing both our Business Plan submission to Ofwat and its initial assessment of our plan. Our plan was based on extensive engagement with customers and stakeholders, with over half a million interactions helping to develop our plans for 2020–2025.

Our plan set out the investment required of £6.5 billion for our region, to facilitate housing and economic growth, ensure our region is resilient to the risks of drought and flood and deliver our environmental obligations.

Ofwat issued its initial assessment of plans in January 2019, and we were delighted that our customer engagement was rated 'A' in the assessment, which also recognised many of the strengths of our plan, particularly in the areas of delivering outcomes for our customers, and supporting vulnerable customers and addressing affordability.

We responded to Ofwat's initial assessment in late March 2019, making small changes to our plan to reflect changes such as the ban on metaldehyde (a molluscicide found in slug pellets) and providing additional detailed evidence supporting our investment plans where Ofwat has made challenges on scope.

We remain of the view that our plan is the right plan for our region and delivers what our customers want, with bill levels that are acceptable to the vast majority of customers.

Getting fit for AMP7

As we approach the end of the current price control period and prepare for the next, we are transforming the way we think and operate so that we are ready for the challenges the new AMP will bring. We'll be delivering the biggest investment programme we've ever undertaken, in a fast-changing world where customer expectations are continually evolving and where we must improve the resilience of our services to the effects of climate change. And we must do this more efficiently than ever before.

We've realigned our operating model around three key functions of water, water recycling and customer and wholesale services. This will put us in the best position to deliver what our customers want, by aligning our asset management and information technology capabilities with our operational functions and ensuring decisions are made by those accountable for delivery.

Our four key goals for AMP7 are:

- to make life better for our customers every single day
- to lead the industry by delivering our Business Plan outcomes
- to drive efficiency, effectively balancing service, cost and quality
- to enable sustainable growth, improve resilience, protect the environment and reduce carbon.

We have strategies in place to deliver each of these, starting in the final year of AMP6, enabling us to learn as we go into the next year so that we are fit for AMP7.

Water treatment works

Throughout the year, we have delivered good performance at our water treatment works and across our networks. This included just five works and five storage reservoir coliform failures.

Water recycling centres

The Environment Agency assesses the quality of the water we return to the environment at 718 water recycling centres (WRCs). Our performance for WRC serviceability is assessed against two measures. For each measure we agree a normal or 'reference' level, which is typically close to the best historical performance, and an upper control limit.

This year we had 10 failing WRCs, which is slightly higher than 2017, but an improvement compared to the beginning of AMP6. There were three failing works that failed Measure 2, one of which, Great Billing, resulted in the upper control limit being exceeded due to the population growth from the site. We carry out investigations to understand the root cause of failures to improve performance across our sites, raise awareness and share knowledge across our operational teams.

Preventing pollution

We continue to see excellent progress in the number of pollution incidents we are seeing each year. Our ODI target was to have no more than 298 incidents for the year 2018/19.

This year resulted in a performance of 185 incidents, showing a positive improvement from 219 incidents in 2017 and 217 in 2016. This included one Category 1 incident and five Category 2 incidents, which is also an improvement on last year's performance.

Keep It Clear

Keep It Clear uses 'word of mouth' techniques, relying on trusted influencers to convey the message. One such project was undertaken in Anglian Water's Shop Window in Newmarket. Three sessions by the founders of the Potty Training Academy were held with parents and carers, offering helpful advice as well as sharing information about how they can help prevent blockages, flooding and pollution. The sessions resulted in 100 per cent of those attending the sessions committing to binning, not flushing, baby and toddler wipes.

This remains a key priority, with an increased focus on smart networks, including:

- analytics to monitor the performance of our assets to predict where there may be risks and identify anomalies in flow rate to avoid environmental impact
- increased telemetry at water recycling pumping stations to provide increased data to transform the way we identify deteriorating performance and to visualise key performance areas so we can proactively intervene before asset failure occurs. Our online solutions (Pollution app and control centre) have been embedded into business as usual and help us to manage any discharge that has the potential to pollute. These digital solutions enable real-time information sharing during incident management and allow us to gather evidence about any impact on the environment from a discharge.

In 2018, 62 per cent of our pollution events were identified and reported by our own staff, rather than a customer. Our target is more than 75 per cent self-reporting in 2019, and we are on track to deliver this. We also continue to run our Pollution Watch campaign to raise public awareness about the causes of sewage pollution, the impact it has and the signs to look out for.

Despite other water companies receiving record-breaking penalties from the Environment Agency, Anglian Water has had four and a half successive years without prosecution.

"Thank you so much. We started potty training two weeks ago and only a few accidents since – the book and pads helped so much. I've been spreading the word to anyone who will listen about the so-called 'flushable' wipes. Thank you Anglian Water."

Sandra Calvache – Anglian Water customer

Keep It Clear

Blocked pipes are a major cause of sewer flooding and 80 per cent of blockages are avoidable, caused by fats, oils and grease (FOG) and items such as wipes and sanitary products, which are improperly poured down sinks or flushed down toilets.

Keep It Clear is our pioneering transformational programme that aims to change the way people dispose of FOG and unflushable items. Over the last year our programme has reached more than 25,000 people across our communities, working with customers, schools, local voluntary groups, councils and businesses to drive ownership at a local level. Alongside this we have visited 2,543 properties in areas identified as 'high risk' to offer advice and gather information on individual waste disposal habits. We have seen a reduction in avoidable blockages of 43 per cent over three years in the 24 hotspot blockage towns.

Since 2015 Keep It Clear has contributed towards a £3.6 million cost saving in blockage, flooding and pollution reduction, money that can then be spent elsewhere on improving services for customers.

The safe and legal management of fat, oil and food waste from restaurants, cafés, pubs and other eating places is another important part of Keep It Clear. This year we made a total of 1,160 visits to 505 different food-serving establishments and undertook 274 free FOG kitchen audits to help them comply with waste disposal regulations and prevent FOG entering the sewer.

At a national level, we continue to work with the British Retail Consortium, Business in the Community and major retailers and manufacturers. Keep It Clear has organised continuous professional development training sessions and joint working with environmental health teams from 32 local authorities in our region. 'Do not flush' projects linked to topics such as hidden plastics in waste commonly flushed and promoting the awareness of plastic-free, reusable period products have also been undertaken with City to Sea, the Marine Conservation Society and the Women's Environmental Network.

Although our message is to only flush the 3Ps – paper, pee and poo – down the toilet, we understand the convenience of wipes. As Chair of Water UK Sewer Network Abuse Prevention, the Keep It Clear programme manager led on the development of the UK water industry's 'Fine to Flush' testing standard, published in January 2019. The standard follows years of working with water company experts defining and adapting this for the UK sewer network, ensuring products would be safe to flush and plastic free.

Sewer flooding

Our performance in this area is measured against two separate ODIs, which look at the three-year average for incidents of internal and external flooding. Four years into the AMP, we are beating our target for both. The current three-year rolling average for internal flooding events is 342 against a target of 448 for the end of 2019/20, while the figure for external flooding stands at 4,148 against a target of 6,159. This is our best year to date.

We have continued to invest in measures such as non-return valves and flood doors, which can reduce the risk of flooding to individual properties and are more cost-effective than large-scale engineering schemes that might cost millions of pounds to protect only a handful of properties. We also target our campaigns in areas where properties are vulnerable to flooding caused by storms and by the failure of assets such as local sewage pumping stations.

While this year's record-setting performance is encouraging, all incidents of sewer flooding contribute to our performance, and so extreme weather remains a threat. Investment in 2019/20 will focus on securing a maximum reward position of £8.6 million for our internal flooding ODI and increased resilience to sewer flooding as we prepare for the introduction of tighter performance commitments in AMP7.

Sewer collapses

Our numbers of sewer collapses and burst rising mains continue to fall, with 214 incidents against a target of 470. An initiative on pressure monitoring of rising mains has been trialled this year to identify bursts before they have an impact and has provided insight into the way we can extend the life of an asset.

Surface water management

We have been developing our plans for significant investment in surface water management (SWM) to reduce the volume of surface water entering sewerage catchments, which can lead to flooding and pollution.

This follows successful case studies delivered in AMP6, including our Make Rain Happy campaign and the Shop Window SWM scheme. Alongside enhancing our resilience to the effects of climate change, growth and 'urban creep', this approach delivers substantial environmental benefits in natural capital, a reduction in operational carbon and reduced costs for pumping and treatment.

Working in partnership to manage flood risk

We worked closely with our risk management authority partners to create 166 submissions for potential partnership projects to manage flood risk. Ten have been directly named in the plan, with 115 unnamed projects for further development. This includes investment in the Thames Estuary Asset Management 2100 Programme.

The following key metrics have been used to identify and prioritise 20 catchments for AMP7, which we will target proactively, with a reactive approach used in our other catchments:

1. Impermeable area that directly connects into the foul/combined sewer (based on the Contributing Area Tool outputs).
2. Cost of sustainable drainage systems (SuDS), per volume removed.
3. Lead Local Flood Authority Willingness to Engage.

A multiplier has then been applied to consider the current and future flood risk.

We plan to implement our first-ever Long-Term Surface Water Management Strategy (SWMS), which will deliver a long-term sustainable approach to surface water management.

Partnership funding

Following delivery of a successful programme in AMP6, which brought considerable benefits to customers and leveraged our investment, over the last year we have been working to increase our investment in partnership funding for AMP7.

We appointed a flood partnerships manager, co-funded by us and the three Anglian Regional Flood and Coastal Committees.

FAIR CHARGES, FAIR RETURNS

Our monopoly status and rising living costs make it particularly important that both our charges and our profits are perceived to be fair.

To meet this outcome...

We must be an efficient company, quick to address challenges of affordability, and embrace development of markets that benefit our customers.

Performance highlights

- Board announced additional £165 million investment by 2020
- Second Green Bond issued in 2018 to further support our ambitious Love Every Drop strategy
- Provided affordability assistance to over 259,000 customers during 2018/19

FAIR FINANCING

£830 million

raised in Green Bonds since 2017

Operating responsibly

Our position as a monopoly provider of essential public services makes it essential that we maintain the trust and confidence of our customers. That means running our business in a responsible and transparent way so people can see clearly that:

- their bills are fair, affordable and value for money
- we are responsible with their money
- we run our business efficiently, sharing any savings fairly between them and our shareholders
- our profits are fair and not excessive
- we pay our fair share of tax
- we act in the public interest.

Improving transparency, building trust

We were the first private water company to remove our Cayman Islands company (which had not been used since 2002 and provided us with no tax advantages). Removing it improves the transparency and clarity of our financial structures. This is discussed further on page 103.

Sharing the rewards

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination. Any regulated wholesale revenue raised over and above the agreed amount is returned to customers through something called the revenue correction mechanism.

Any profits, and returns to investors, that we make in excess of those derived from allowed pricing come from:

- increasing efficiency – running the business more cost-effectively than was funded at the time of the Final Determination
- any rewards for meeting our ODI targets.

Efficiencies are either reinvested to improve service for customers or shared 50:50 with customers at the start of the next AMP, helping to keep bills down. In addition, our focus on sustainable savings that can be maintained over the long term will help reduce our cost base in 2020–2025.

The Board has previously announced it will invest an additional £100 million in services and an extra £65 million in resilience schemes over the rest of the AMP.

ODI rewards are received for improved performance or service levels that benefit customers, the environment or both.

Responsible financing

We have always raised our debt through UK-registered companies, and our debt is listed on the London Stock Exchange. In 2017 we became the first European utility company to issue a sterling Green Bond. The £250 million, eight-year bond will mature in August 2025 with a return to investors of 1.625 per cent. Since the successful launch of that debt transaction, we have raised a further £580 million of Green Bonds to investors in the UK and United States in accordance with the Green Bond Principles 2018. The investments financed through this debt are expected to save or avoid 118,463 tonnes of carbon.

Increasingly environmental and social risk management is influencing the debt markets, and investors are attracted to companies that take a sustainable approach to managing their businesses. Green Bonds see investors lend businesses money to fund work with positive environmental benefits.

Many businesses choose not to finance investments with Green Bonds as they consider it too difficult to evidence the necessary standards for demonstrating sustainability under the principles required by bond investors. Crucially, in our case we didn't have to change any day-to-day processes to qualify. Our strong governance culture ensures we continuously drive to generate value for customers and society while delivering environmental benefits.

With sustainability at the heart of all business decisions, all of our capital expenditure meets the requirements of the Green Bond principles; however, for reporting and monitoring purposes we selected some of the largest schemes to be financed through the bonds. These include innovative water abstraction projects, drought and flood resilience schemes, and progressive water recycling and water resource management projects. Examples of such projects can be found on our website: www.anglianwater.co.uk/investor-information. We have now spent £792 million on projects funded by Green Bonds. Our first Green Bond is on track to deliver a reduction in CO_2 of 85,410 t/CO_2e.

More information can be found in our Green Bond impact report: www.anglianwater.co.uk/siteassets/household/pr19/pr19-10c-green-bond-annual-report.pdf.

We propose to raise the majority of our finance in accordance with the Green Bond principles. In 2018, we announced that we had issued a second Green Bond to further support our ambitious Love Every Drop sustainability strategy and work to secure resilient water supplies for generations to come.

Fair charges

Most customers say our bills are already fair, affordable and value for money, but we are focused on doing what we can to improve on this position. Each year we find out what our customers think about our charges through four independent surveys, carried out by the Consumer Council for Water. These cover perceptions of fairness, affordability and whether our water and water recycling services are value for money.

At the start of the current AMP, survey scores for the industry were used to calculate an average for each measure and our score in relation to each of the four averages was set as a baseline. Each year the surveys are repeated and new averages are worked out. Our score in relation to the new averages is compared with the baseline to understand our performance. We are committed to at least maintaining levels of satisfaction in each area. Having exceeded our baseline on all our measures, we have earned an ODI reward of £150,000 for 2018/19 (see page 67).

Help for those who need it

We understand that affordability challenges will vary across time for the same household and can be driven by different circumstances. For many customers it is an infrequent event, for example, the timing of the bill creating short-term budgeting issues. Other customers might face longer-term problems where household income doesn't match outgoings.

We recognise that Anglian Water alone cannot solve wider affordability problems, but by linking into and making customers aware of the wider support available we know we can play an important role. Working together with various national and local partners, we have developed an ambitious programme of support that, in time, will transform the scale of support we can offer customers with affordability concerns.

In the first instance, we are using data analytics to route any calls from customers identified as those with a high risk of affordability issues to our ExtraCare team, where we can check to see if they are claiming all benefits to which their household is already entitled.

We then look to see what help we can provide to customers to better manage their payments to us, including forgiveness schemes, payment 'holidays', leakage allowances, instalment plans and settlement agreements. We also operate a number of tailored tariffs, including the AquaCare Plus and WaterSure concessionary tariffs and our social tariff, called LITE.

Together these schemes provided assistance to over 259,000 customers during 2018/19.

We have also increased signposting to third-sector organisations, including financial inclusion services, charities and housing associations, as well as developing coordinated branding for this extra support to help promote our services directly to target groups.

We believe this holistic approach is the way forward, and it's already making a real difference to those who need it.

In the Business Plan we submitted this year for 2020–2025, we propose to go significantly further. Our plans will support on average 475,000 customers each year who have affordability and vulnerability issues – a huge jump in support for customers. Where extra support is needed, we will introduce a 'tell once' approach and work closely with the energy sector and other agencies to avoid these customers having to make multiple contacts about the extra support they may need.

Where does customers' money go?

Keeping bills low while maintaining investment in the things our customers value most is a key aim of our Business Plan. Whatever we invest is ultimately underpinned by customers' bills, so it is important to show how that money is being spent and how it is delivering value.

We are proud of our record on efficiency and delivering value for customers. That focus on efficiency, and our long-term commitment to pass savings back to customers, means our bills have risen just 10 per cent since privatisation in 1989 – far less than any other water company.

For 2018/19, bills will be £442 on average, or £1.21 a day, of which just 5p is net profit.

Metering and water efficiency

Metering is the fairest way to charge for water, encourage water saving and ensure our customers only pay for what they use. Typically, customers save over £100 a year and use up to 15 per cent less water when they switch to metered charging, and 82 per cent of our customers already receive a metered bill.

Last year, our Integrated Metering and Developer Services alliance continued work on our programme to install 86,000 new meters, upgrade another 412,000 and visit 120,000 customers to offer efficiency tips and install water-saving devices.

Our Wave programme – where we combine all the elements of metering and water efficiency in defined geographical areas – has made good progress, installing 14,000 new meters and proactively replacing 80,000 more across our region.

Alongside this proactive approach, customers can also request a meter. Our target is to have visited 48,000 such customers over the five years to 2020.

We assess our success in encouraging water-efficient behaviour by measuring average water consumption per household. This is one of our ODIs. Our target is to reduce the average per household consumption by seven litres a day between 2014/15 and 2019/20, by continuing to transfer customers to meters and supporting them to use water more efficiently.

Smart meter installation in Colchester, Essex.

Getting smarter

We successfully completed the installation phase of our second smart meter trial in Norwich, installing 11,000 smart meters. These are in addition to the 7,500 we fitted via our Innovation Shop Window in Newmarket in 2016/17.

The meters remotely collect hourly consumption data, which helps customers understand their water use and helps us to better understand how our water network operates. To date we have helped customers identify and fix 1,470 leaks, reducing the volume of water lost to customer-side leakage and plumbing loss by 90 per cent.

Our online customer portal that lets people view their own consumption data and see where they could save water is now being used by 2,433 customers. Early signs are that it does help people use less water.

All of this insight helped inform our Business Plan, providing valuable information on the benefits smart metering offers our customers.

Driving down consumption

Through our Shop Window initiative, we have been working with our customers in Newmarket to drive down consumption. During 2018, customers in the town reduced their usage by 8 per cent through a series of behaviour change experiments, targeted communications and community engagement activities.

Initiatives have included challenging customers to use as little water as possible for one month, supported by encouragement nudges via text.

This resulted in a marked decrease in usage to just 98 litres per capita consumption (PCC), significantly lower than the UK average of 151 litres PCC.

Ongoing communication with customers has encouraged them to look harder at their own water usage through our smart meter portal. This has enabled them to monitor their own consumption and make changes accordingly.

Attracting investment

Profits are essential to attract private investment, as customers' bills alone could only fund a fraction of what we invest each year. We have to provide investors with a reasonable return on their investment. We also believe excellent performance should be reflected in higher profits. However, profits can rise or fall due to factors not directly related to excellent performance – for instance, the level of interest rates, the rate of inflation or unexpected new legal obligations.

When inflation outturns at a significantly lower rate than assumed at a price determination, this can adversely affect our finances as we are under-recovering our costs. Conversely, when inflation outturns at a higher rate, it can benefit companies, and this may be perceived as unfair. We look to manage this inflation risk to minimise the impact for us and our customers, and the link to inflation is a key driver of the relatively low costs of capital from which customers benefit.

Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset.

We currently have a strategy to reduce the percentage of debt compared to our Regulatory Capital Value. This means shareholders forego potential dividends and allow that money to be used to reduce the amount of new borrowing required to fund our capital investment programme.

Our dividend policy

The appropriate level of dividends for a company like ours is influenced by a range of factors, including the ownership and performance of the Company. Our dividend policy is to identify the cash available for distribution, having set aside enough to meet our liquidity requirements for funding our operations, servicing the capital programme and repaying maturing debt.

The dividend policy is also limited by ensuring there is adequate headroom in our projections of financial covenants and any gearing targets set by our Board.

As previously announced, dividends are being reduced through to 2025, resulting in a significant reduction in the Company's level of gearing.

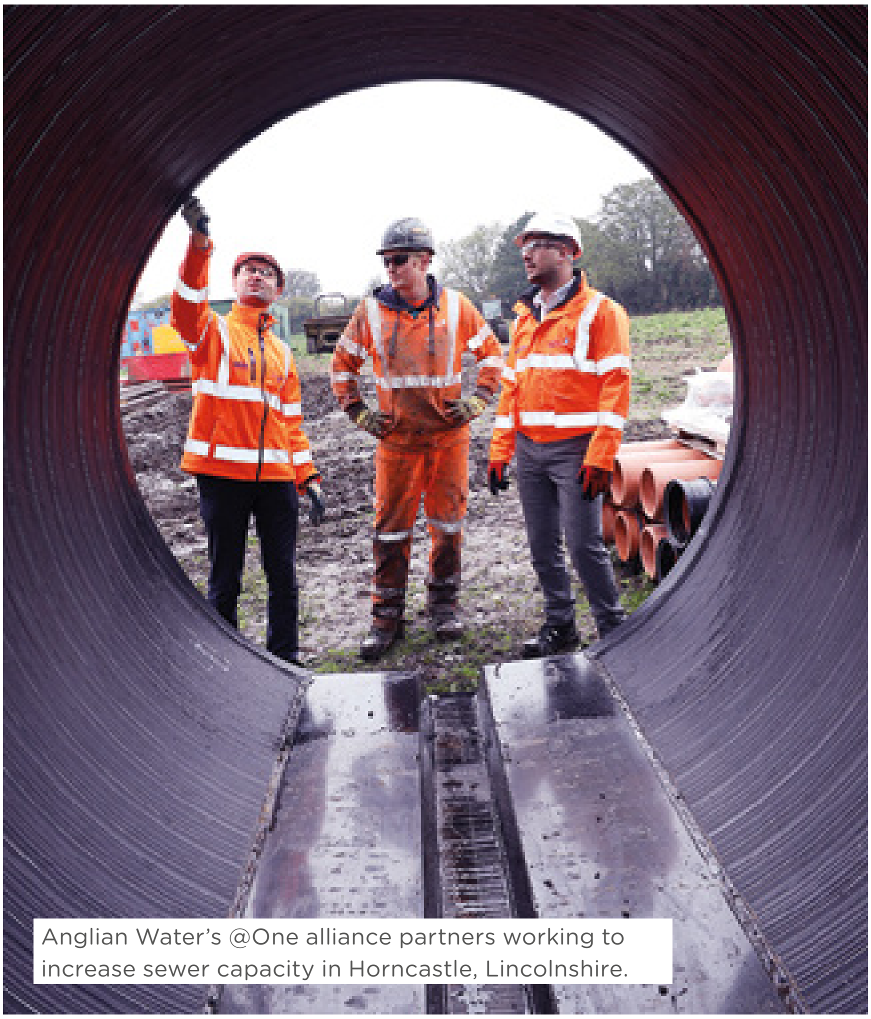
In assessing any dividend payment, the Independent Non-Executive Directors have to consider business performance forecasts and the potential impact of external factors in the economy, as well as the regulatory environment, on forecast cash flows. We believe this cash-based approach provides an acceptable and fair return to the equity investors while ensuring the liquidity requirements of the business are fully met. It has also proved resilient in absorbing the costs of new obligations and regulatory changes.

Tax

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support moves towards greater transparency that increase understanding of tax systems and the building of public trust.

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

Our taxable profits are less than the profits shown in our accounts, and our effective rate of corporation tax is less than the statutory rate



Anglian Water's @One alliance partners working to increase sewer capacity in Horncastle, Lincolnshire.

of corporation tax. This is because of the huge amount of investment we bring into our region and the HM Revenue & Customs (HMRC) rules on interest payments and capital allowances designed to encourage that investment.

We have one of the largest levels of private investment in the region, worth more than £2 billion over five years. This is central to underpinning the growth of the regional economy.

That investment is largely paid for by borrowing, and we have to pay interest on that borrowing. HMRC rules say companies only pay corporation tax on the profits they have remaining after any interest payments are made.

Our taxable profits are also reduced by capital allowances, which the Government grants us to encourage infrastructure investment. Accounting profits are reduced by depreciation – the drop in the value of equipment and plant due to wear and tear over their useful life. HMRC does not take account of depreciation when it comes to determining taxable profits. Instead, it grants companies capital allowances. These encourage investment by letting a company recoup the cost of an asset at a faster rate than depreciation.

This also means some of our corporation tax liabilities are deferred until later. The corporation tax is not avoided, it is simply deferred. All this encourages investment and allows us to make a real contribution to infrastructure development, environmental protection and customer engagement in our region.

An open and constructive approach

Our commitments on tax are underpinned by the Anglian Water Group tax strategy, which is based on a number of principles.

Tax planning and compliance

- We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We are registered for tax in the UK and do not engage in artificial tax arrangements.
- We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development principles and regulatory accounting guidelines.
- We adhere to relevant tax law and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.
- We believe we are compliant with UK tax legislation and pay the right taxes at the right time.
- Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.
- Due consideration will be given to the Group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the Group, and will form part of the overall decision-making and risk assessment process.

Relationships with tax authorities

- We are committed to the principles of openness and transparency in our approach to dealing with tax authorities. All dealings with the tax authorities and other relevant bodies are conducted in a collaborative, courteous and timely manner. Our aim is to strive for early agreement on disputed matters and to achieve certainty wherever possible.

Tax risk management and governance

- We have a comprehensive, multi-layered risk management system, which consists of risk registers for all areas of the business. These registers are subject to both internal and external review. We have a specialist tax team who identify, assess and manage tax risks and account for them appropriately. We implement risk management measures, including controls over compliance processes, and monitor their effectiveness.
- On a periodic basis the Board reviews how risks are managed, monitored and assured, and any improvements being made. In this way the Board provides governance and oversight of significant risks.
- Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

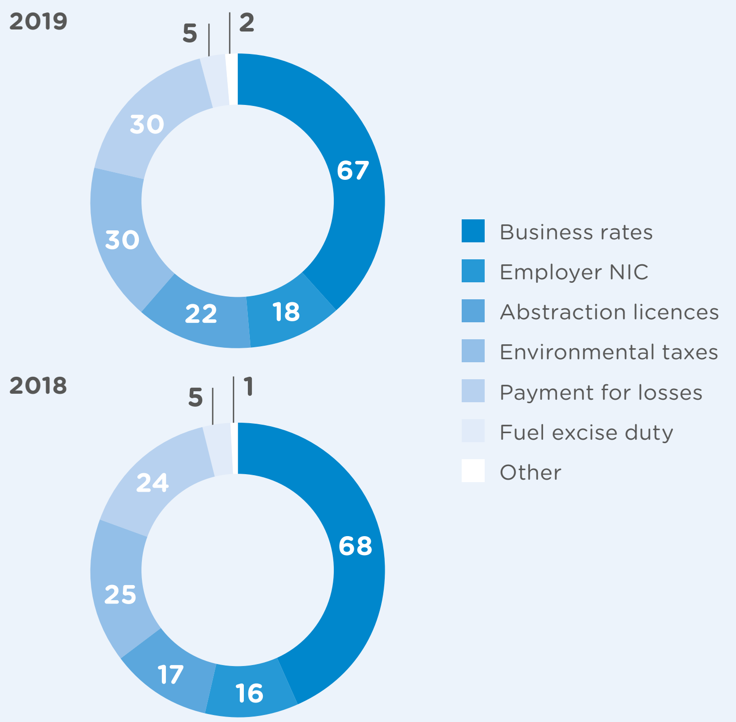
Our tax contribution

Our total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 2019 amounted to £256 million (2018: £227 million), of which £82 million was collected on behalf of the authorities for value-added tax (VAT) (£40 million) and employee payroll taxes (£42 million).

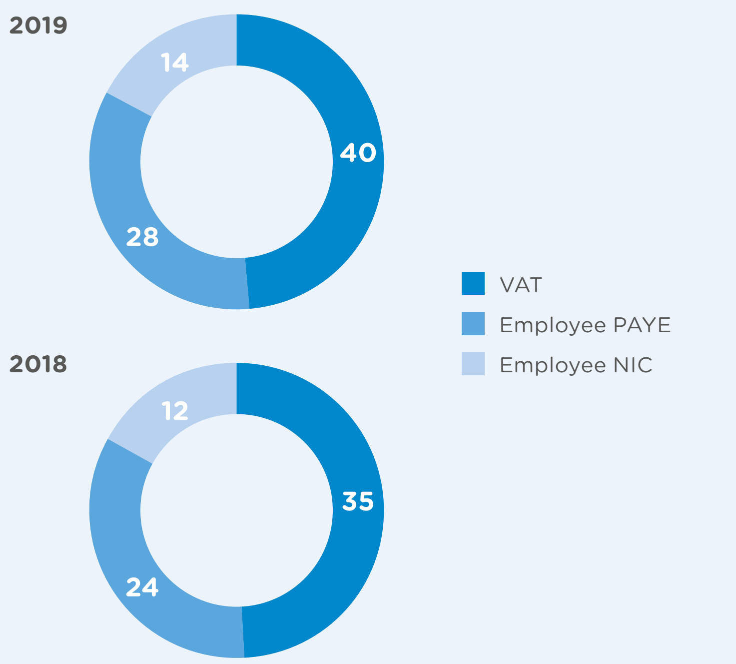
The most significant taxes involved, together with their profit impact, were:

- business rates of £67 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax
- employment taxes of £60 million, including £42 million of employees' Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £18 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets
- VAT of £40 million collected and paid to HMRC. VAT has no material impact on profit before tax
- payments of £30 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to Anglian Water. This has no impact on profit before tax
- abstraction licences and direct discharges of £22 million. This is a direct cost to Anglian Water and reduces profit before tax
- fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- environmental taxes of £30 million charged to operating costs, reducing profit before tax.

Taxes incurred directly
Figures in £ million



Taxes collected
Figures in £ million



OUR PEOPLE: HAPPIER, HEALTHIER, SAFER

Customers rely on our people. Attracting, developing, retaining and partnering with the best talent is therefore a bedrock of our business.

To meet this outcome...

We will champion health, safety and wellbeing; develop new talent; and nurture an efficient, customer-focused workforce.

Performance highlights

- Awarded Glassdoor Employee's Choice Best Place to Work in the UK
- Retained RoSPA Gold Award for Safety for 15th consecutive year
- Fully embraced the introduction of the apprenticeship levy and have successfully targeted total recovery of our levy payments

A clear plan for happier, healthier, safer people

Our three-year health, safety and wellbeing plan aims to ensure our business has happier, healthier and safer employees, with five distinct outcomes:

- a healthier and safer work environment
- improvements to health and safety made through positive engagement and collaboration
- high-risk activities managed to reduce significant incidents
- hazardous processes understood and controlled
- clear and simple safety information.

Our behavioural change programme, LIFE, links health, safety and wellbeing together and is focused on creating a culture where it is everyone's responsibility to care of not just their own wellbeing but also that of their colleagues.

To date, more than 5,000 people, including personnel from our alliance partners, have been through specially designed LIFE workshops. We have also run a number of health and wellbeing campaigns that have focused on a wide range of areas that can impact an employee's wellbeing, including musculoskeletal (MSK) health, mental health and financial health.

Happier and healthier people

Our mission is to make sure that an individual's wellbeing is at the heart of everything they do. We want to help everyone become happier, healthier and safer at work and at home.

We're taking this holistic approach towards physical, mental, social and financial health to enable our employees to thrive. This year we've focused on physical health, predominantly MSK, and mental health. Initiatives have included:

MSK health

- 'Moving Well Assessments' for operational staff to assess MSK health and promote wellbeing tools – targeted specifically at mobility, strength and posture – and desk assessments for office-based staff.
- 'Healthy U' app – developed by Vitality and Nuffield Health to help employees get healthy, get rewarded and stay motivated.

Mental health

- Focus on breaking the stigma around mental health, showing support, providing support and self-help tools, and promoting the Employee Assistance Programme.
- 'Mental Health at Work' training for managers.
- Self-referral for mental health – allowing early access to mental health support with no referral required.
- Financial wellbeing – targeted webinars and roadshows with financial specialist Neyber, including one-to-one telephone consultations, webinars and roadshows.

Safer people – managing high-risk activities

We continue to collaborate internally and with our alliances to better manage high-risk activities. Outcomes have included the development of consistent standards, virtual reality and online training modules to focus on activities such as breaking ground, driving and working in the highway.

We have also run targeted campaigns on utility strikes, slips, trips and falls, and MSK health to raise awareness in the business in these areas of concern.

Pioneering digital

As well as developing digital training tools, we have also built our own health and safety app, which was shortlisted for IT Initiative of the Year at the prestigious 2018 Utility Week Awards. The app provides a simple way of recording all incidents, with the ability to track and monitor progress. Feedback from end users of the app has been very positive since its implementation.

Safety in numbers

Performance against our agreed metrics for health and safety is closely monitored by our Board all year around. This year's performance has largely been stable, which is a reflection of our continued work to create a culture where the health, safety and wellbeing of our colleagues is front of mind, every day, for our business.

We have been recognised again by the Royal Society for the Prevention of Accidents and awarded 'Gold' for our excellent health and safety performance and our effective health and safety management system. We were also the first UK water company to be awarded the ISO 45001 standard for health and safety.

Best place to work in the UK

Our excellent customer service and our place in the industry as a leading UK water company rests on the passion and dedication of our people. To ensure this excellence continues, we must work hard to create a culture where our colleagues feel supported and valued.

The Glassdoor Employees' Choice Award recognises employers that shine brightest according to those who know a company best – its employees – and in December we were named the best place to work in the UK as a result of first-hand feedback from our people. We even beat Google to the top spot.

Internally, we also seek to gather feedback from our colleagues on a regular basis. Feedback from our most recent pulse surveys showed engagement has increased by 4 per cent since 2017 in the areas surveyed.

Part of creating a supportive working environment is making sure important information and resources are easy to access for our colleagues. In October we introduced 'Workday', a digital one-stop, self-service shop for our employees and partner colleagues.

Building a pipeline of talent for the future is critical in any business, and we've invested in the development of a varied apprenticeship programme. We have fully embraced the introduction of the apprenticeship levy and have successfully targeted total recovery of our levy payments. This year we've announced another 64 apprenticeships. Around a third of Anglian Water's workforce will retire in the next decade, and the apprenticeship scheme enables us to target budding engineers and technicians from the next generation and give them the right skills and experience to join the business, it also enables us to upskill existing staff.

We now have 18 different programmes, ranging from HGV driving to a master's degree in strategic leadership. Programmes that are largely targeted for the harder-to-recruit skill areas and new or growing skill requirements are key, including programmes for data analysts, project managers, a range of digital skills and role quantity surveyors.

Joining forces with Capgemini, we are also able to offer undergraduate degree apprenticeships in digital skills, which are proving highly successful, and existing employees who are being upskilled are finding the new opportunities exciting and motivating. The nine apprentices currently employed on this apprenticeship study part-time at

MEASURE AND TARGET	2016/17	2017/18	2018/19
Category 1 events[1]	3	10	**5**
Category 1 events *- Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) reportable specified injury accidents* *- RIDDOR reportable non-worker/member of the public accidents* *- RIDDOR reportable (potentially life-limiting) occupational diseases* *- Fatalities*			
Accident frequency rate (AFR) – 0.14	0.12	0.12	**0.12**
The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors.			
Sick absence – 4.5 days	4.39	4.61	**4.60**
The average number of working days lost per employee due to sickness.			

1 This year, we have made changes to the way we report on the more serious events. To ensure we have a more objective and refined way of reporting and measuring performance, we have revised the event types that are now classified as Category 1 events. To ensure consistency of reporting, we have revised the previous years' Category 1 figures in line with the current reporting criteria so that we are comparing like for like.

Aston University over 4.5 years, with work experience in both Anglian Water and Capgemini.

We are planning to continue to expand the range of programmes on offer for apprenticeships after successfully hiring more than 64 apprentices from the region last year into Operational, Maintenance and Engineering roles.

Since 2014 we have recruited 200 apprentices, with 93 per cent retention as of December 2018. Across our programme we are pleased to include, for the first time, two Level 4 apprenticeships for existing employees in key areas of business focus. These include 13 data analysts and 12 associate project managers on programmes, with further cohorts planned for autumn 2019.

We also continue our commitment to professional skills development through our Licence to Operate programmes. In January 2019 we became the first water company in the UK to secure the latest Competent Operator Scheme certificate from the water industry competency assessment body Energy and Utility Skills, in close coordination with the Drinking Water Inspectorate (DWI) regulator.

We want to ensure our culture is one where people are able to bring their whole selves to work and we are able to attract talent that reflects the diverse nature of our community and develop skills for the future of our industry. To give us a broader perspective, we have signed up to the EU Skills Inclusion Commitment statement, which, among other things, is a commitment to ensure that our workforce reflects the diverse nature of our communities.

Gender diversity

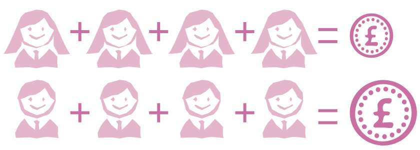
In 2018 we hired 50 per cent women and 50 per cent men onto our Graduate programme and 48 per cent women and 52 per cent men onto our paid Internship programme.

In December 2018 we set up a Future Leaders Board made up of a diverse group of individuals from across the business who will bring new ways of thinking and challenges to our businesses' decision-making processes.

Each board committee member will be in post for 18 months, during which time they will consider the challenges of customer expectation, sustainability, and diversity and inclusion.

Anglian Water's mean gender pay gap was 6.6 per cent and its median gender pay gap was 11.3 per cent.

This compares with a national mean pay gap of 14.5 per cent and a median figure of 9.7 per cent.



Mean gender pay gap:

6.6%

Median gender pay gap:

11.3%

This is the average difference between the pay of men and women working for an organisation. It is not the same as equal pay. The law says men and women must be paid the same for doing equivalent work. If they are not, then their employer must justify why not. We pay men and women the same rates for performing the same roles and roles of equal value.

The primary reason for the gender gap in pay is that, traditionally, the water industry has been a male-dominated sector and women are under-represented. Many of our employees have been with the Company a long time. This shows we are a good employer with a loyal and knowledgeable workforce.

However, the slow turnover of staff does limit the opportunity for new recruits, including women, to come into the business and to move into more senior roles. It is something we are looking to address by continuing to educate and inspire women to consider science, technology, engineering and maths (STEM) as career options, working to achieve an equal number of men and women across our early careers and trainee schemes, and by creating a flexible working environment.

The total gender split across Anglian Water is now 31 per cent women and 69 per cent men. At the senior management level, 37 per cent of our workforce are women, which has increased by 5 per cent from last year, and in all levels of the organisation, with the exception of Driver and Works Technicians grades, the proportion of women is now greater than 30 per cent.

We have continued to focus efforts on increasing the number of women in apprenticeship roles to strengthen our pipeline, by engaging with local schools and colleges, supporting Women in

Engineering events and increasing visibility of women joining the business, through our social media feeds and other publications and we have continued to promote flexibility across the organisation, seeing a further increase in the number of men taking up part-time working. Of all those working part time, men now make up 18.5 per cent, compared to 16.3 per cent last year.

An ethical business

We are committed to conducting our business fairly, honestly and openly. We expect all employees, partners, agents and contractors to adopt a high standard of business ethics.

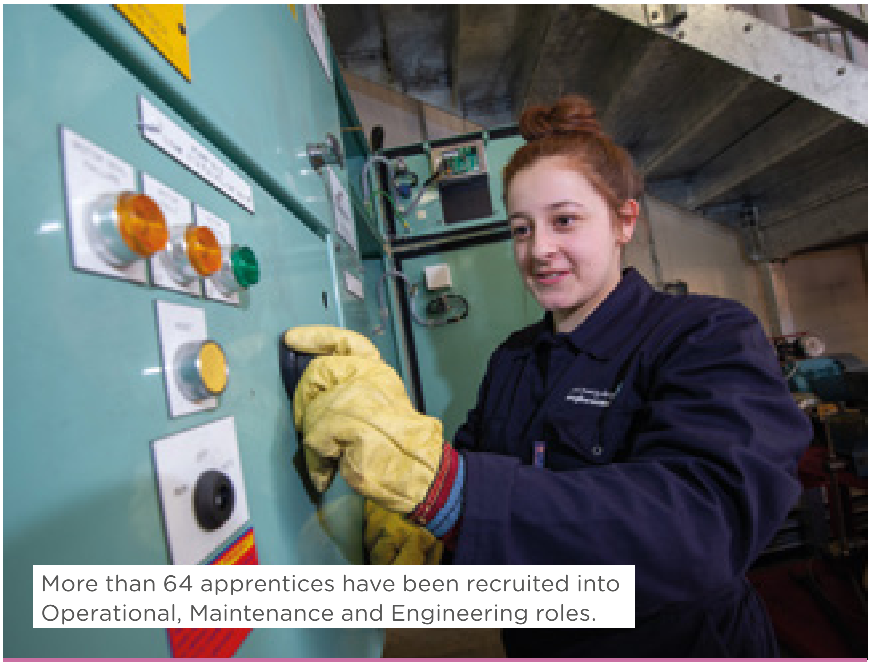
We have zero tolerance of bribery and corruption. All Directors and senior managers of Anglian Water are fully committed to preventing bribery being committed by any employee, person or business that carries out work or performs services on our behalf (including any subsidiary or associate company within the Anglian Water Group).

We have policies in place that address the risk of bribery and failure to prevent criminal facilitation of tax evasion. In addition, we have policies that set out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality as well as political and charitable donations. We also have a whistleblowing policy in place (see page 97 for further information).

All staff must comply with these policies and with the Bribery Act 2010 at all times. A booklet, entitled *Making the right choices*, has been sent to all employees of Anglian Water, setting out the behaviour expected of them and providing guidance on making the right choices when faced with decisions that might not be central to their role. Topics covered include anti-bribery, fraud, modern slavery, protecting personal information and competition law.

In addition, all employees are required to complete online training, including anti-bribery, maintaining a level playing field (which deals with competition law risk) and data protection law. Our data protection training was updated in 2018 in response to the requirements of the General Data Protection Regulation (GDPR).

The Company also has a zero tolerance to modern slavery and human trafficking and has taken appropriate steps to ensure that it does not take place in our business or any part of our supply chain. Details of the procedures that we have put in place can be found in our Slavery and Human Trafficking Statement, available at www.anglianwater.co.uk/governance.


More than 64 apprentices have been recruited into Operational, Maintenance and Engineering roles.

Pensions

The Anglian Water Group Pension Scheme (AWGPS) defined benefit sections have been closed to new entrants since 2002, and following more than a year of engagement and consultation with employees and trade unions, the decision was taken to close all sections of the AWGPS to future accrual in March 2018. A new defined contribution Master Trust pension scheme with Legal & General was introduced, effective from 1 April 2018, for all our employees. As part of the consultation, we improved the maximum employer contribution to the new defined contribution pension and introduced greater choice through a package of benefits that aimed to ensure all our colleagues have the flexibility to choose their contribution levels and their access to other benefits such as healthcare, depending on their personal circumstances.

We also agreed a 6 per cent pay rise spread over two years (3 per cent in 2018/19 and 3 per cent in 2019/20), to enable our colleagues to plan with more certainty and to give reassurance about their future incomes.

SMART COMMUNITIES

POSITIVE IMPACT ON COMMUNITIES

Our activities have a broad impact on the communities we serve. We aspire to act as a responsible citizen, taking consideration of the views of community members.

To meet this outcome...

We must meet customer expectations of a tailored and inclusive service. One of our key roles in this area is to act as a facilitator for economic growth.

Performance highlights

- Led development of the water industry's Public Interest Commitment, committing the entire industry to continuing to deliver wider benefits to society
- Became the first water company to raise more than £1 million for WaterAid in a single year
- More than 100,000 people have benefited from our community involvement in 2018/19
- Teams and individuals contributed more than 1,500 hours of volunteering in local communities

COMMUNITY PERCEPTION

Based on a survey of community perception.

PERCENTAGE OF SATISFIED HOUSEHOLDS

TARGET (BY 2019/20)	ACTUAL
60%	57%

Responsible Business

Our customers and stakeholders rightly expect us to harmonise our focus on delivering a leading performance alongside playing a big role in tackling the wider social and environmental challenges of climate change, growth and resilience. During the past year some important questions have been raised about 'company purpose' more broadly. We welcome these questions and the opportunities they provide for Anglian Water to demonstrate how a sustainable, purpose-led approach, such as ours, is not only desirable but intrinsically linked to business success.

Anglian Water has been at the heart of leading this approach across the industry, and we are delighted that all water companies have this year signed up to something we're calling our 'Public Interest Commitment'. It's a statement that commits the entire industry to continuing to deliver wider benefits to society, above and beyond the provision of clean, fresh drinking water.

While our year as Business in the Community's (BITC) Responsible Business of the Year came to an end in July 2018, our work as a responsible business grew. At BITC's Awards Gala at the Royal Albert Hall, we were able to shine a spotlight on our community regeneration project in Wisbech, bringing young, aspiring presenters from local schools to host the event alongside Sir Lenny Henry. We used the evening to challenge the UK's business community to step up and play a more constructive role in the future of their local community. As a result, we have been working with BITC to develop a new, business-led place-making strategy. A national Place Leadership team has been established and, based on our experiences in Wisbech and BITC's work across the country, a strategy has been developed that has enabled three businesses to come forward to commit to driving community regeneration in three new locations.

This includes Lowestoft, where as Chair of BITC's Regional Advisory Board we are working with partner companies, in particular Kier, to support the people of the town to realise their vision of regeneration.

"Anglian Water's partnership in Wisbech is an inspirational and exemplary model for how you can transform places and is guiding the Place Leadership Team to think through how we can encourage others to do the same. The support they have given Business in the Community has been tremendous and their openness to share and learn from others to support the cause is fantastic."

Nishi Mayor, Place Director, BITC

Responsible Business of the Year Volunteering Day

Serving our communities is core to our business, and our employees are our biggest asset. Supporting employee volunteering builds on our culture of responsible business and excellent service. It helps us connect with, and demonstrate our commitment to, the communities we serve.

We wanted to say thank you to our people for their hard work, energy and passion, which keeps us at the forefront of responsible business, so this year we gave our people an additional day to volunteer through Love to Help, our employee volunteering programme (on top of the Love to Help match time scheme). Since July teams and individuals around the business have spent over 1,500 hours in their local communities supporting causes that matter to them.

When our people give their time and apply their expertise and skills to some of the big challenges our communities face, they can make a big difference. They've supported causes that improve the environment, support the lives of vulnerable customers and communities, and develop the skills and educational needs of our region. We asked some of the charities and communities we have supported how our people have helped:

"The volunteers made a real difference; they were a credit to the company, stupendous and nothing was too much trouble. Your support to the Godmanchester Foodbank played a part in our best year ever for collection: in total 6,300kg of food was distributed over 180 hampers to local people."

Godmanchester Foodbank

"The volunteers helped with much-needed improvements that would not have been possible otherwise. It was really productive having a team who were so keen and willing to help. The mix of skills was fantastic and helped to get more done than I thought was possible on the day. One team member even sorted out our drainage pipe in the pond."

British Dragonfly Society


Employees volunteering at Sailability, Rutland Water.

The benefits of volunteering

Volunteering is just as beneficial to our people. It has enhanced employee wellbeing, increased pride in the business, built team relationships and furthered personal development so our teams can bring that commitment and experience back to their day jobs.

- Over 1,500 hours supporting local causes in the community.
- 100 per cent of charities reported that Anglian Water volunteers made a positive difference to their organisation.*
- 94 per cent of our volunteers reported that volunteering positively contributed to their wellbeing.*
- 86 per cent of our volunteers reported an increase in pride in Anglian Water.*

*Of those who returned surveys.

One of our volunteers shared their experience of volunteering: "It makes me feel good about what I do for a living and that I do have an impact on the bigger picture. It makes me feel proud of my role and the company I work for. I love to see everyone come together to improve what is important to us."

Some employees, including Louisa (see quote), used their volunteering day to volunteer for Sailability, which focuses on making sailing accessible for people with disabilities.

"I have made unexpected connections with some wonderful people. I have learned skills I never imagined I could."

Louisa Driskell,
Health and Safety Technician

London Benchmarking Group

The London Benchmarking Group framework is the global standard for measuring community investment and enables us to understand the impact our community investment has in local communities. This year more than 100,000 people have benefited from Anglian Water's community investment.

Ambassadors

Our community ambassadors are trained volunteers from across the Company who run interactive sessions with community groups. Together with our online customer community and our Customer Board, the programme allows us to feed customers' views into the heart of our thinking. In the last year our community ambassadors have spoken to over 1,000 customers, discussing the key issues affecting water and gathering their opinions. Their views were then fed back into the development of our new Business Plan. The ambassador programme has become business as usual, with bookings in the diary into 2020, allowing us to have an ongoing conversation with the communities we serve.

WaterAid

Anglian Water continues to provide support to WaterAid – our nominated charity, which transforms lives by improving access to clean water, decent toilets and good hygiene in the world's poorest communities.

During the year, Anglian Water Group donated £40,000 to WaterAid and actively encouraged the participation of its employees in various fundraising activities through a number of initiatives, including quizzes, cake bakes and the ongoing monthly WaterAid lottery. Volunteering for WaterAid is a key part of Anglian Water's Love to Help employee volunteering programme, which allows employees to take time out of the office in support of various good causes. With the support of the Company, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an additional £1,060,927 for WaterAid (2018: £902,050) – making us the first water company to raise over £1 million for WaterAid in a single year.

Education programme

Since 2007, our education programme has been providing exciting opportunities for future customers to understand the value of water. In that time over 450,000 people (34,422 in 2018/19) have seen first-hand the work we do to protect the water cycle and understand their role within it. Our aim from this work is to help create the next generation of young advocates for the sustainable use of water. One hundred per cent of our post-lesson evaluations are 'Good' or 'Excellent'.

Water parks, for people and wildlife

We provide fantastic water parks for people and wildlife. Over two and half million visitors a year come to visit our 4,428 hectares of parkland, woodland, nature reserves and water at Rutland, Grafham, Alton, Pitsford and Hollowell Water, Raventhorpe Reservoir and Taverham Mill Nature Reserve.

Our water parks play an important role in conserving and enhancing our region's natural riches while providing a wonderful resource for the public.

While the long summer of 2018 saw visitors flocking to the parks to enjoy the sunshine, the exceptional high temperatures and the duration of the summer also provided the perfect climate for blue-green algae and, like a number of inland waters, we suffered an unprecedented bloom at Alton Water in Suffolk, which resulted in us taking the precaution to close access to the water during July, August and September.

Despite the algae, Alton Water opened the gates to its brand-new 88-pitch campsite, delivering 900 overnight stays to holidaying guests. Alongside a newly refurbished cycle hire centre, the tearoom was taken under the management of the park team, enhancing the facilities and services available for park visitors to enjoy.

We have led the field in providing safe swimming access at some of our parks. Rutland Water opens part of its shores to create the UK's largest inland beach between July and August each year, and Aqua Park, the floating assault course, secured its place at Alton Water, following its huge success at Rutland Water over the past three years. We also continue to welcome thousands of runners to our parks, including official competitions such as the first Night Run at Rutland Water, which attracted 1,200 runners, and we hosted the World Lure Fishing Championships, also at Rutland, which welcomed anglers from 16 countries around the globe.

Further developments have been made at our parks, including a jumping pillow at Grafham, a mobile catering trailer to meet seasonal demand for refreshments and new playground equipment at Alton and Rutland Water.

Grafham Water, for the first year, joined already-accredited Rutland Water in achieving accreditation through Visit England's Visitor Attraction Quality Assurance Scheme.

Each of our seven parks retained Green Flag status, which recognises well-managed parks and green spaces, setting the benchmark standard for the management of recreational outdoor spaces across the UK and around the world.

Our team of park volunteers is now delivering an impressive 3,000 hours each year, helping us deliver fantastic improvements to our parks by fencing, woodland thinning, coppicing and litter picking, while learning valuable skills and training in park and conservation management.

SAFE, CLEAN WATER

Customers view the provision of safe, clean drinking water as the most vital service we offer.

To meet this outcome…

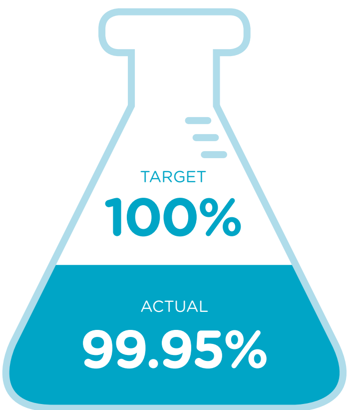
We must mitigate threats to water quality generated by environmental pressures and climate change.

Performance highlights

- Customer contacts regarding drinking water quality at best ever levels
- Submitted our Long-Term Strategy for Water Quality to the DWI
- Achieved excellent performance at our water treatment works

MEAN ZONAL COMPLIANCE

This is a measure of compliance with water quality parameters.



WATER QUALITY CONTACTS

This measures taste, odour and appearance contacts per thousand customers.

TARGET	ACTUAL
1.23	1.18

Performance at our supply sites and our networks

The Drinking Water Inspectorate (DWI) measures performance at our water treatment works (WTWs) and the quality of the water travelling through our network supplying homes and businesses.

This year we achieved excellent performance again at our WTWs with just five coliform failures. In 2018, as part of its routine assessments, the DWI also audited our WTWs at Dalton Piercy in Hartlepool, Hall in Lincolnshire and Glandford in Norfolk. We received detailed reports from the Inspectorate and we are working with it on its findings.

Our solid performance continued at our storage reservoirs, where we achieved a compliance score of 99.98 per cent this year.

Mean Zonal Compliance (MZC) is the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales. It is one of our ODIs, with a target this year of 100 per cent. This year we achieved 99.95 per cent.

In 2017, the DWI introduced a new measure called the Compliance Risk Index (CRI), which will replace MZC as our ODI from 2020.

CRI has four components: treatment, reservoir, supply points and zones. Our provisional CRI for 2018 from DWI is 2.09, a significant improvement on the year before, partly due to a reduction in the number of metaldehyde failures. There will also be a second new measure, called the Event Risk Index, which is determined by the type of DWI-notifiable events we have and how we respond to them. In readiness we are now also monitoring this measure.

Water quality contacts

Once again we have seen a reduction in the number of contacts we receive from customers about the taste, odour and appearance of their water. Water quality contacts is one of our ODIs, and last year saw us achieve a record low of 1.23 per thousand people. This year we exceeded that performance, achieving 1.18 per thousand population.

This is thanks to a continued focus on supporting customers through our social media channels and responding to every single cluster of two or more contacts.

Lead replacement

Lead can be harmful to health, especially for young children and expectant mothers. The main source in drinking water is the pipes that connect kitchen taps to the water mains in properties built before 1970.

This year, through our work to identify lead sample results that exceed the regulatory limit or when we reconnected customers who replaced their pipes, we replaced over 469 lead pipes.

Alongside this we operate our Lead Advice Line, directing customers to information on how to replace lead pipework and offering free lead tests. This year we received over 600 requests for free tests.

We also provide information to health professionals who have contact with our target audiences, primarily families with young children. In 2018, we provided over 70,000 leaflets, scratchcards and posters to midwives, hospitals, GP surgeries, children's centres and nurseries.

Since 2015 we have replaced 4,400 lead communication pipes with plastic ones, completing our committed programme of work.

An alternative approach to controlling lead levels in drinking water is to add a small amount of orthophosphoric acid, which forms a coating inside the pipe to stop lead dissolving into the water. We have been investing in new equipment at our WTWs to enable us to do this, which has been hugely successful in reducing the number of lead sample failures at customer taps.

We've attended some of the region's biggest events, including the Royal Norfolk Show, Suffolk County Show and the Lincolnshire County Show, to share information on lead – this has driven over 600 requests for free lead tests.

Water fittings compliance

While we are only responsible for the pipework up to a property's boundary, plumbing fittings on the customer side can still affect the water quality of the supply or, in extreme cases, cause contamination.

In 2018 we inspected over 8,500 properties, ranging from hospitals to farms and schools to ports. Many of these properties had plumbing that didn't comply with regulations. As part of our proactive education programme, we are now working with eight plumbing training colleges to educate the plumbers of the future about compliance requirements. We also visited over 1,600 public buildings, such as smaller schools, village halls and community centres, which are often used by vulnerable groups, including young people and the elderly.

We are also aware that some customers are at risk of contaminating their own drinking water due to poorly plumbed rainwater harvesting systems. To protect both current and future owners of these premises, we made a commitment this AMP to visit every domestic property in our region with a rainwater harvesting system.

Long-term strategy

In May 2018 we submitted our Long-Term Strategy for Water Quality to the DWI, aligning to our long-term outcome of providing safe, clean water for our customers.

Our strategy sets out how we will protect and improve raw water quality at source, increase resilience in our treatment processes, safeguard quality across our distribution system and ensure water is clean and safe within the home.

It details the areas of uncertainty we face around water quality risk, such as climate change, growth and planning, unknown political and policy changes, emerging raw water pollutants that may impact on our catchment management strategies and pressures on natural capital that we need to manage by working together with other users such as landowners.

We also outline areas for investment, including work to protect water at its source from pollution, replacement of ageing assets, additional treatment requirements to comply with changing raw water quality and replacement water mains.

We are one of the first companies to apply for accreditation of our source-to-tap drinking water safety approach to ensure we accurately assess risks to water quality.

We take our responsibility to protect public health very seriously; we will continue to work with local authorities, plumbers, suppliers and the public to raise plumbing standards across our region by extending our inspection regime to cover an even wider variety of properties.

Protecting water quality at source

We continue to work with landowners and businesses across the region to address issues such as agricultural pollution, the impact of plastics, third-party pollutions and trade effluent discharges to protect water quality.

Improving water at source as opposed to being reliant on treatment solutions is more cost-effective for customers but also can afford wider environmental and social benefits, such as improving the amenity and recreational use or increasing habitat and biodiversity. Better-quality raw waters are also able to be moved between areas of scarcity, improving resilience across our region.

More than 100 farmers are now able to receive detailed weather updates to help plan fertiliser and pesticide application.

Forecasting the weather

Predicting the weather is critical in helping farmers plan their agriculture activities, particularly when considering the application of fertilisers and pesticides to land. Applied at the wrong time, such as just before a heavy rainfall, these chemicals can be washed away into raw water sources – a costly mistake for the farmer that can also impact water quality.

In a bid to help our farm customers, we have supported the installation of 15 weather stations across the region to provide localised weather information, including temperature, evaporation and wind speed, as well as soil temperature and moisture – all critical data to minimise the loss of these chemicals from the land into raw waters. The data is then available via an app that predicts suitable pesticide application up to five days in advance.

Currently over 100 local farmers can receive this data, and we're planning a wider roll-out in the future. We are also looking to expand the data to monitor drain flow, which will help us to understand when we might see elevated pesticides in raw water during winter.

DELIGHTED CUSTOMERS

Putting our customers at the heart of everything we do will ensure that we are making the right decisions.

To meet this outcome...

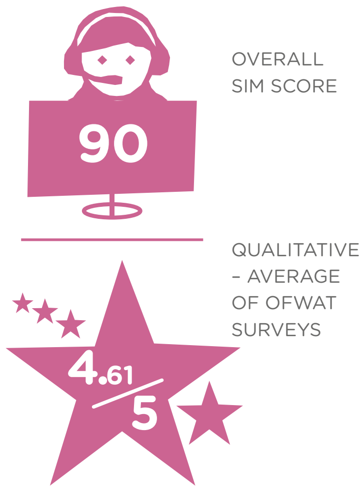
We must address challenges associated with changing customer expectations.

Performance highlights

- Named number one for customer service in Ofwat's qualitative Customer Experience Survey for the second year running
- Almost two decades of consistent upper-quartile service performance
- All customers protected from any impact during record-breaking hot and dry weather in summer 2018, following no customer service impact during the 'Beast from the East' in the preceding winter
- Instrumental in the creation of the water industry's Public Interest Commitment, setting new standards for a social contract with customers and stakeholders

SERVICE INCENTIVE MECHANISM (SIM)

This measures the level of customer concerns with our service and how well we deal with them.



Transforming customer service

We have a strong track record of delivering a leading customer experience, but we always strive to do more.

Providing a great service to our customers is business as usual for us. However, it's important we continue to adapt and improve our service in line with our customers' individual needs. This year we have driven a customer service transformation programme across our business that has seen us review and redesign our processes and communications to ensure we're delivering the service our customers want and need.

Outcomes of this review include increasing our use of two-way SMS communication to engage with our customers, and we have also further developed our online billing platform, MyAccount. Among many other helpful improvements, our customers can now update their address and switch to a meter at the click of a button. We've seen the use of this platform increase, with over 30,000 customer interactions every week.

Driving developments in technology is key to delivering an excellent service for our customers, but it's only part of the story. We've also been working with all our front-line staff on an internal initiative called Make Today Great, the aim of which is to help make life better for our customers, every single day. We've taken our front-line staff through challenging customer service training and made changes to our internal processes with the sole purpose of ensuring everyone at Anglian Water is empowered to do what they can to make an individual customer's day better.

Measuring customer satisfaction

We make a point of regularly asking our customers for feedback so we know how we're doing and where we need to improve. This year more than 100,000 customers shared their views with us, and 96 per cent told us they were either 'satisfied' or better with the service they received from us. This is great news, but it also means there's room to do even better!

Along with direct feedback from our customers, we also gauge our performance through two other mechanisms. The Institute of Customer Service's annual Customer Satisfaction Index (UKCSI) measures individuals' recent experiences of customer service across 13 different business sectors. The overall UKCSI score dropped this year and so did our own average score for the year, which dropped slightly from 77.5 per cent to 75.5 per cent.

We can't lose sight of the fact that despite 75 per cent being a good score, we want to do more.

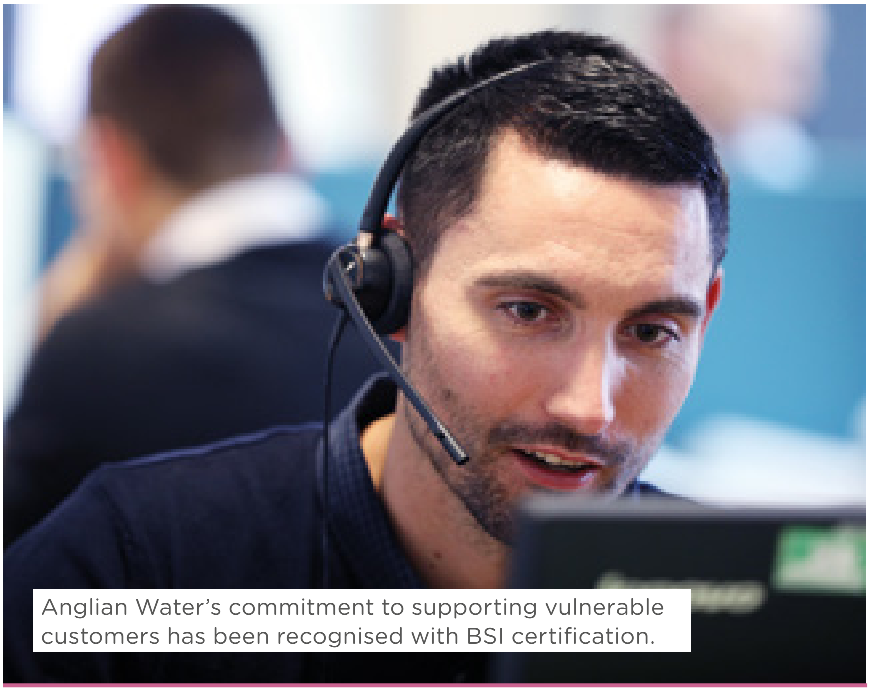
In addition to the UKCSI, the water sector also has a Service Incentive Mechanism (SIM), which is used by Ofwat to compare the customer service delivered by all water companies. And in July 2018 Anglian Water was named number one!

2018/19 is the last year Ofwat will use the SIM, which is being replaced by a new Customer Measure of Experience.

We finished 2018/19 with top spot in Ofwat's qualitative survey for the second year in a row. This is a survey based on ratings from customers who contacted us throughout the year, and this result is testament to the hard work and changes we have made to ensure our customers continue to rate our services among the best. Together with our quantitative performance, which looks at the number of unwanted customer contacts, we have a SIM score of 90 out of 100. We will learn whether we have retained the overall top spot in relation to other water and sewerage companies later in 2019.

Looking ahead, we want to ensure all of our customers continue to feel supported. We now have over 120,000 customers benefiting from a cheaper tariff, and over the next year we will be further developing our WaterCare package of support.

Where that extra support is needed, with the customer's consent, we will work closely with the energy sector to introduce a 'tell once' approach. This will avoid customers having to make multiple contacts to their energy and water companies about the extra support they may need.



Anglian Water's commitment to supporting vulnerable customers has been recognised with BSI certification.

Supporting vulnerable customers

Following a formal six-day assessment against the requirements of the British Standards Institution's (BSI's) BS 18477 (Inclusive service provision – Requirements for identifying and responding to consumer vulnerability), it was confirmed that we were recommended for certification to this standard.

The assessment covered a range of our business, from the service delivered by our contact centres and debt advisors to our service and staff out in the field. It also included interviews with our senior leadership teams.

The BSI assessor commented, "I am really impressed by the overall awareness of vulnerable customer needs and commitment by all staff."

Achievement of this certification really demonstrates our commitment to continually improve and ensure our services are inclusive, available and accessible to all our customers equally, regardless of their personal circumstances.

We also successfully gained accreditation from The Institute of Customer Service – achieving their ServiceMark, a national customer service standard.

With our customers' participation during focus groups and workshops, we've redesigned our bills. Next year we plan to redesign and improve our braille and large-print bill communications as well.

This year we also started to redesign how we communicate to our customers, beyond our bills.

Rather than telling them everything at once, we aim to let them know what they need to know, when they need to know it.

New customers now receive a tailored communication with follow-ups depending on the individual customer. We plan to roll this approach out to all our customer communications.

SMART ENVIRONMENT

SUPPLY MEETS DEMAND

Managing increasing demand on our water and sewerage systems will be critical to ensuring we deliver a sustainable, continuous service over the long term.

To meet this outcome…

We must plan for the long term, taking a twin-track approach to demand management and securing new supplies in order to meet the combined impacts of population growth, climate change and environmental pressure.

Performance highlights

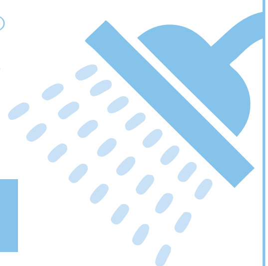
- Developed our first Water Recycling Long-Term Plan
- Updated and published our draft Drought Plan
- Published our approach to working collaboratively with councils to plan for development: Local Plans – An Anglian Water perspective

PER-PROPERTY CONSUMPTION

This measures the average water consumption of the households in our region in litres per household per day.

TARGET (BY 2019/20)
305

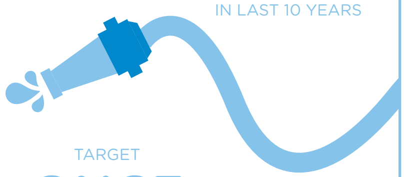
ACTUAL
323



SERVICE LEVEL RESTRICTIONS

Frequency of service-level restrictions such as hosepipe bans. Number every 10 years.

ACTUAL
ONCE
IN LAST 10 YEARS

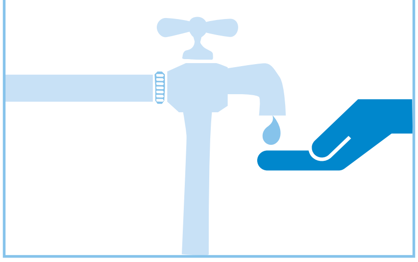


TARGET
ONCE EVERY 10 YEARS

SECURITY OF SUPPLY INDEX (SOSI)

These are measures of how well our networks can cope with pressure on water supplies.

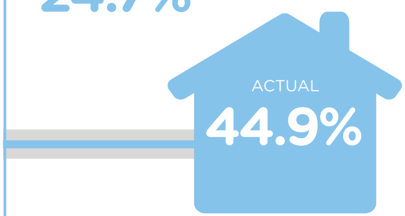
	DRY YEAR ANNUAL AVERAGE	CRITICAL PERIOD (PEAK) DEMAND
TARGET	100	100
ACTUAL	100	100



SINGLE SUPPLY SYSTEM

Percentage of population supplied by a single supply system.

TARGET (BY 2019/20)
24.7%



ACTUAL
44.9%

Scale of the challenge

As a region we face a time of great uncertainty and change. Our supply–demand balance is under significant pressure, and we have to act now to ensure there will be enough water available for future generations. Our region is already the driest in the country, and climate change projections suggest that in the future there will be lower summer rainfall and hotter temperatures, reducing the amount of water available. As well as less rainfall, we are required to abstract less water, and we'll also have more people to supply – our region is one of the UK's fastest growing. A 20 per cent increase in population is predicted over the next 25 years.

Planning for the long term

This year, we published our draft 2019 Water Resources Management Plan (WRMP), which sets out how we will manage the water supplies in our region to meet current and future needs over a minimum of 25 years. We will focus on the demand side first to reduce the amount of water used, which is our customers' preferred priority, and we will also invest in the supply side to increase the amount of water available.

Demand management strategy – key points

- Leakage reduction: 23 per cent further decrease by 2025 and 42 per cent decrease by 2045.
- Installation of smart meters with complete coverage across our region by 2030 to enable changes in customer usage.
- Innovative water efficiency schemes, including behavioural change initiatives to help our customers become even more water efficient.

Supply-side strategy – key points

- Investment in a series of interconnecting pipes across our region to better join up our supply network, moving water from areas of surplus to areas of deficit.
- Consideration of additional resources for the medium to long term, e.g. storage reservoirs, water reuse schemes and desalination.

Our guiding principles remain constant and are driven by our customers' highest priority: that we provide a resilient supply of safe, clean water. We aim to develop a system of water supply that is reliable, sustainable and affordable.

Protecting supplies

We've set ourselves the target of having no properties supplied by a single supply source by 2035 – key to building a resilient network. In 2015 we had 46.9 per cent of our customers on a single system, and by the end of AMP6 we intend to reduce this to 24.7 per cent. By the end of AMP7 we intend to reduce this further to 14.1 per cent.

Safeguarding the environment

Together with the Environment Agency and Natural England, we have been developing our approach, which balances the needs of the environment with our responsibility to maintain public water supply.

Under tighter environmental protection laws, we have to reduce the amount of water we can take out of rivers and aquifers to feed our water network so that our actions don't have the potential to cause harm to the environment. Between 2020 and 2025 we will implement 'sustainability reductions', relinquishing our abstraction rights in sensitive areas by 84 million litres daily.

To complement this, we are also delivering an extensive programme of improvement works to our region's rivers, to improve flows and support the natural ecology.

Tighter environmental protection laws mean a reduction in the amount of water drawn from the environment.

Planning for a drought

This year we have updated and published in draft our latest Drought Plan, which sets out how we will safeguard public water supplies during extended periods of low rainfall, when water resources become depleted, and what we will do to minimise any potential environmental impacts that may arise as a result.

Customers have told us they do not expect to face more severe forms of restrictions, and we believe the investment proposed in our WRMP will remove the threat of rota cuts and standpipes and increase the resilience of our supply system to the impact of drought. We have committed to an ODI that limits hosepipe bans and other service restrictions to less than once in every 10 years; the last hosepipe ban imposed by Anglian Water was in 2012.

Water Recycling Long-Term Plan

Alongside our WRMP, we have also developed our first Water Recycling Long-Term Plan (WRLTP). This has been recognised as industry-leading, with endorsement from a wide range of stakeholders, including the Environment Agency and local councils.

The plan outlines the investment needed over the next 25 years to balance the supply and demand for water recycling services. The plan promotes sustainable solutions for maintaining reliable and affordable levels of service and facilitates working in partnership with other risk management authorities to mitigate the risk of flood.

Our WRLTP also outlines investment strategies to support sustainable growth. The timing and scale of these needs are unknown, so our strategies are adaptive to allow us to respond to the key indicators we monitor. A long-term view enables us to identify solutions that are phased according to our confidence of the need for investment, including opportunities to reduce the risk to the services we provide for customers in the long term.

Supporting sustainable growth

To support the predicted 20 per cent increase in population over the next 25 years, Anglian Water is working collaboratively with councils to prepare local plans that outline the scale and distribution of housing and economic development across our region. In November 2018 we published *Local Plans – An Anglian Water perspective*, outlining these objectives, suggested wording for inclusion in local plan policies and how we can support site selection.

The intention is to work increasingly closely with councils on the development of their local plans at an early stage as well as continuing to comment at formal stages. We have completed training sessions for elected members and planners on good practice and opportunities for integrated water management.

“This year has seen us finalise our strategy for ensuring water supply meets demand in our region until 2045. I am extremely proud of the plan we have developed, which maximises use of existing resources before looking to develop new ones, while also ensuring we are protecting our precious environment. Last year’s weather really tested our supply systems, and the ability to keep up with demand during the long, hot summer of 2018 highlighted the importance of planning for the future to ensure resilient water supplies for our customers.”

Hannah Stanley-Jones,
Head of Water Resources

A FLOURISHING ENVIRONMENT

Natural environment is the foundation of our business and the broader regional economy. To ensure the long-term sustainability of our business, our operations must enhance rather than degrade the environment.

To meet this outcome…

We must take a proactive approach to managing environmental pressures that takes into account the long-term impacts of climate change and population growth.

Performance highlights

- Second Sterling Green Bond issued, available to finance selected investment programmes
- £783 million allocated to environmental protection and enhancement in Business Planning for 2020–25, through the delivery of our Water Industry National Environment Programme (WINEP), expenditure that is more than double the last period

BATHING WATERS

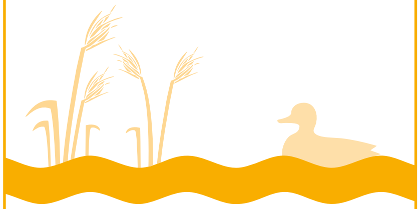
These are the Environment Agency categories for beaches in our region.

BIODIVERSITY

This measures the percentage of our SSSIs by area that are judged to be in favourable condition by Natural England.

TARGET (BY 2019/20) **>50%**

ACTUAL **99%**



Biodiversity

This region is home to over 700 of the best places for wildlife, designated as sites of special scientific interest (SSSIs), 49 of which we have a dedicated responsibility to protect and enhance. Alongside our management of these sites, there are also many other important sites for wildlife that we care for. This year we conducted a variety of activities to understand the value of our landholdings. Highlights of our investigations include:

- identifying all the Local Wildlife Sites we are responsible for
- conducting a botanical survey of Whitlingham Marsh, part of Whitlingham Water Recycling Centre, which resulted in the marsh being designated as an official Local Wildlife Site
- a comprehensive botanical investigation and management plan for Marham Fen in west Norfolk, to improve the site as a home for wildlife
- surveying our operational sites for rare species, such as the shrill carder bee and the four-spotted moth.

We have also been working with the University of East Anglia to understand not only the biodiversity value of our operational sites, but also how these landholdings connect to other land outside our ownership and facilitate the movement of wildlife across the wider countryside. Applying this cutting-edge science has been a real highlight of the year, and this valuable insight will help us target our conservation work to where it will do most good.

One of our key success stories for this year has been the development of a treatment wetland at Ingoldisthorpe, in partnership with the Norfolk Rivers Trust. The wetland will provide additional nutrient treatment for the effluent from the water recycling centre as an alternative to using expensive carbon- and chemical-intensive treatment. In addition, it also creates valuable habitat that we wouldn't get if we had just built an extension to the works. This is an approach we plan to use much more in the future.

These wetland environments and the work we're doing to target the management of biodiversity on our land are just two ways in which we're taking a leading role in not just protecting the environment from any potential impact but enhancing what's already there.

Looking ahead, we're going to be working with colleagues across our business to embed biodiversity 'net gain' as part of our overall approach to ensure there is more biodiversity as a result of our business activities, not less.

Striving for excellence

Protecting the quality of bathing waters is of huge importance, both to the environment and to the coastal economy. Our Coastal Water Protection team works with councils, the Environment Agency (EA), local businesses and residents' groups to identify and address sources of pollution. The EA classifies bathing waters against four standards: Excellent (required for Blue Flag awards), Good, Sufficient and Poor. Results are based on a four-year average to make the data more representative.

Bathing waters latest figures

Excellent – 32

Good – 9

Sufficient – 6

Poor – 2

A highlight this past year has been to see Cleethorpes move from 'Good' to 'Excellent' status, which comes as a result of working closely with the local authorities and the EA to continue to improve bathing water quality.

- Clacton Groyne 41 has again been classified as 'Poor'. This bathing water has a long-running issue with water quality. Recent investigations show the source of bacterial pollution may be a combination of private sewerage systems and roosting birds. Joint efforts continue to identify and remediate the bacterial sources here.
- The only other 'Poor' bathing water classified in 2018 is Leigh Bell Wharf in Essex, which for the 2018 season had all 'Excellent' sample results, apart from two 'Sufficient' equivalent samples. Joint efforts continue to identify and remediate the bacterial sources here.

Teams of volunteers have been cleaning up watercourses across our region.

Empowering communities

The RiverCare and BeachCare programmes are our long-term partnerships with Keep Britain Tidy to empower communities to look after their local environments. There are now 47 established volunteer groups looking after stretches of river and beach across our region.

The RiverCare groups have the use of two new kayaks manufactured from recycled marine plastic litter collected from beach cleans in the south west of England.

And by the sea, as well as the four ongoing BeachCare groups we have in place, volunteers have been encouraging members of the public to take part in 'two-minute beach cleans'. There are now 20 coastal sites that have two-minute beach clean boards in place that house all the kit needed to pick litter. This approach forms an important part of both our bathing water quality and our plastic reduction strategies.

Many of our own staff have been dedicating their volunteering days to support RiverCare and BeachCare through our employee volunteering programme, Love to Help.

Our priority remains to improve the quality of all bathing waters in our region to 'Excellent', as well as stabilising those already rated as 'Excellent'.

As part of this, we have now completed a study with Aberystwyth University that is focused on understanding any potential impacts of our assets on 28 of our 49 bathing waters. This study has helped inform the investment outlined in our PR19 Business Plan.

In addition, we continue to work with local authorities and the EA to identify all potential bacterial sources that could impact on our region's bathing waters.

Environmental protection training

Our own employees play a key role in supporting the environmental initiatives we are driving. As a result we've invested in training over 200 employees across the region in the importance of the effective management of incidents on our sites and the application of best practice to protect and enhance the environment and the communities we serve.

Training has included a hands-on, practical element on best techniques for monitoring, sampling and on-site testing and analysis, and an explanation of our new incident escalation processes in light of the recently released Pollution mobile app. The training has included collaborative work with local EA officers to develop a new Formal Sample training video.

Over the next two years a further 550 employees will go through this training.

It is another element of our strategy to lead the industry in the important responsibilities we have as a water company in caring for our natural environment.

The Marine Conservation Society and Anglian Water's Keep It Clear partnership, highlighting World Oceans Day 2018 with Wallace the Wet Wipe Monster.

A SMALLER FOOTPRINT

Customers are increasingly concerned about the impacts of climate change. As the largest energy consumer and emitter in the East of England, we have a responsibility to reduce our ecological footprint.

To meet this outcome...

We must find sustainable ways of meeting increased demand created by population growth, taking into consideration the acute impacts climate change will have in our region.

Performance highlights

- Agreed a water sector target of net zero carbon by 2030
- Reduced annual net operational carbon emissions by 58 per cent from 2010 baseline
- Made savings of more than £2.6 million by managing and reducing our energy use
- Broken new ground in generation of renewable energy on our sites

CAPITAL CARBON

This is the percentage reduction in carbon emitted as a result of construction projects we undertake (from 2010 baseline).

TARGET (BY 2019/20)

60%

ACTUAL

58%

OPERATIONAL CARBON

This is the percentage reduction in carbon emitted as a result of operational activities (from 2015 baseline).

TARGET (BY 2019/20)

7%

ACTUAL

29%

(EXCLUDING EXTERNAL FACTORS SUCH AS DECARBONISATION OF THE GRID, OUR EMISSIONS WOULD HAVE INCREASED OVER THE YEAR DUE TO A SIGNIFICANT INCREASE IN THE WATER SUPPLY DURING THE EXCEPTIONAL SUMMER HEAT WAVE.)

Continuing to provide a reliable and affordable service means we must address the impacts of global challenges, including the effects of climate change and the need to make the most of finite resources to provide for a growing population.

In 2016 we were the first water company to set an ambition to become carbon neutral by 2050. With others in the water industry we have challenged ourselves and set a sector target of net zero carbon by 2030. Our strategy involves cutting our carbon emissions, reducing the energy and materials used to maintain our infrastructure, generating our own renewable energy, increasing the efficiency of our equipment, driving out waste and finding uses for the by-products of our treatment processes in pursuit of a truly circular economy.

By doing so we also continue to reduce costs, drive innovation and set a leading example for others to follow. We have already made great progress in cutting carbon and want to push ourselves further still.

Measuring

For a third consecutive year we retained our PAS 2080 certification in Carbon Management in Infrastructure, demonstrating that we have the right leadership and governance in place for effective carbon management. We were the first organisation in the world to be verified against the standard in 2016. Collaboration across the supply chain is a critical element in delivering carbon and cost reductions. PAS 2080 provides a consistent framework for organisations to use in measuring, managing and reducing carbon.

Annual gross operational carbon emissions (subject to assurance in June) decreased by 29 per cent in 2018/19 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO_2e to 322,201 t/CO_2e. Greenhouse gas emission data has been measured and reported in line with the environmental reporting guidelines from the Department for Environment, Food and Rural Affairs (Defra). Annual net operational carbon emissions decreased by 30 per cent in 2018/19 in comparison to the 2014/15 baseline, reducing from 446,834 t/CO_2e to 314,050 t/CO_2e.

Our design engineers and capital delivery teams have delivered a 58 per cent reduction in capital carbon against our 2010 baseline, through a focus on design, materials used and installation and commissioning techniques in construction.

Collaboration in carbon and energy reduction

Since 2006, our energy initiative has delivered year-on-year savings by managing and reducing energy use, reducing emissions and removing unnecessary costs from our water and water recycling operations. Savings in 2018/19 alone exceeded £2.6 million.

Last year we launched a new energy efficiency and optimisation framework to support us in achieving our goals around energy, carbon and cost. We have seven companies (Air Technology Ltd, Aqua Consultants, Boulting Ltd, Integrated Water Services Ltd, Projective Ltd, Panks Pumps and Veolia) in the framework and our strategy is to create a collaborative environment where they are fully integrated with our business. We strongly believe that this will allow us to continue setting and achieving industry-leading efficiency standards. A recent study has shown that in 2018/19 we doubled the number of opportunities found by our energy optimisation initiative compared with previous years. This is driving down the cost of supplying water and recycling water while protecting our environment.

Renewable energy

An increasing amount of renewable energy is generated on our sites. In 2018/19 we generated 107GWh from biogas using our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. This is an increase on the 90GWh generated last year. This year has been one of breaking new ground in CHP performance; outputs have steadily climbed across the year with the highest-ever daily and monthly outputs recorded in the second half, with a first-ever 10GWh+ month achieved. This year also saw the CHP outputs going above 100GWh for the first time.

This has been as a result of increased focus on sludge treatment centre processes and moving towards a production-based culture across the asset base. The key has been collaboration between all teams in highlighting and tackling issues early on, resulting in reduced downtime periods. This supports our wider goal to generate in excess of 30 per cent of the electricity we consume from renewable power by 2020.

Further work has been done to prepare for the introduction of the production-process performance model, which will enable a coordinated 12-week 'look ahead' for enhanced coordination of sludge availability, logistics, the impact of plants going offline and maximising the potential of available fuel stocks.

During the year we have been studying the sludge treatment centres' performance closely. This has included using innovative techniques to evaluate the amounts of energy potential in the sludge feedstocks and enhancing the proportions reclaimed. This work is planned to continue into next year in conjunction with a number of innovation-led projects.

We have installed solar on an additional five operational sites where power is consumed from this sustainable resource. This is part of our ambitious plan to consume 44 per cent of energy from on-site renewables sources by 2025.

We have installed solar on ten operational sites in total.

Supply and demand

Anglian Water carefully manages its supply and demand of energy to minimise costs and deliver wider benefits. We have a fleet of generators, which ensure supply security as well as earning income by providing services to the National Grid. They also help to reduce possible interruptions to supply caused by power outages.

We carefully manage the power we generate and the power we import. This allows us to maximise our income from exporting power and minimise the amount we are charged for importing it during periods of peak demand, when tariffs are much higher than at other times. This year that demand management has provided a benefit of more than £3 million to Anglian Water.

Zero waste

We continued to strive for zero waste in 2018/19, with areas of great success. Flag Fen Waste Recycling Centre has a new waste hub station allowing the site to achieve zero waste to landfill (excluding the sewage screenings and grit). We have made improvements to our data quality and software to ensure waste reports are generated effectively. Logistics, grounds maintenance and construction also supply valuable data for our monthly reports. This year we sent 14,093 tonnes of our waste to beneficial use.

The first stage of the Medium Combustion Plant Directive came into force on 1 January 2019. This Directive impacts the quality of emissions to air, in particular from diesel and CHP engines. We have assessed our CHP plants and generators and applied for the relevant permits from the EA.

During 2018/19 we were informed of plans to carry out a wholesale review of the permitting for biowaste, which is a future challenge for the business. We also face areas of uncertainty about the storage of biosolids and the potential impacts of the Industrial Emissions Directive. These have the potential to impact us significantly.

The Strategic Review of Charges was implemented by the EA in 2018/19 and has impacted our charges for waste and discharge activities. The ambiguity in the new charging structures has meant there have been significant challenges in interpreting them. We are working with the EA to correct any charging discrepancies.

We continue to be involved in the Chemical Investigation Programme and have been active in a number of areas of research and investigation to protect the future outlets for our materials.

Sludge and biosolids

The majority of Anglian Water's sewage sludge is treated via enhanced anaerobic digestion processes, with the remainder treated through the addition of lime, to produce biosolids, a valuable fertiliser product. We are aiming to treat all of our biosolids through this route and have actively reduced the volume being lime-treated this year.

Our biosolids production is certified to the Biosolids Assurance Scheme (BAS), a scheme that Anglian Water helped develop. We will continue to play a key role in the management and evolution of the scheme for the future.

The BAS standard was developed to provide assurance to the food industry that the recycling of biosolids to agricultural land is a safe and sustainable practice. The scheme is supported by an independent technical advisory group, which includes experts from the food and water industry.

In addition to BAS certification, Anglian Water achieved an industry first when we were awarded ISO 9001 and 14001 accreditation for our overall biosolids recycling operation.

Our aim to be more 'circular' is becoming a reality with the introduction of our zero waste strategy in the business. Our next steps are to implement our zero waste to landfill approach, already adopted at Flag Fen, across our other sites. We're also exploring alternative circular options for screenings and grit waste.

OUTCOME PERFORMANCE HISTORY

ODI performance payments

The table below shows that in 2018/19 we have earned outperformance payments for performance in eight ODIs: leakage, supply interruptions, pollution incidents, water quality contacts and the four customer perception ODIs. The rewards and penalties stated in the table have been inflated at year average RPI to 2018/19 prices to make them more relevant to stakeholders.

We will apply all rewards or penalties to bills in the next regulatory period, 2020–25.

2018/19 prices (£m)	2015/16	2016/17	2017/18	2018/19	TOTAL[1]
Interruptions to supply	6.6	0.9	6.6	6.6	**20.6**
Leakage	0.6	3.0	5.4	3.6	**12.5**
Pollution incidents	5.1	2.7	2.6	3.7	**14.1**
Value for money perception – water	0.1	0.0	0.2	0.025	**0.3**[2]
Value for money perception – wastewater	0.1	0.0	0.1	0.025	**0.3**[2]
Fairness of bills perception	0.1	0.1	0.3	0.05	**0.5**[2]
Affordability perception	0.2	0.1	0.3	0.05	**0.6**[2]
Water infrastructure serviceability	0.0	-0.6	0.0	0.0	**-0.6**
Water quality contacts	0.0	0.0	0.0	0.1	**0.1**
Total	**12.8**	**6.2**	**15.5**	**14.1**	**48.3**

1 Some totals do not sum due to rounding.

2 Performance against our customer perception measures (value for money – water, value for money – sewerage, fairness and affordability) depends on data in the Consumer Council for Water report *Water Matters*. At the time this Annual Integrated Report was approved, *Water Matters* for 2018/19 had not been published, and therefore these performance measures have been added subsequently.

OUTCOME PERFORMANCE TABLE

We measure our performance against 32 commitments, or Outcome Delivery Incentives (ODIs), which appear throughout this report. This table lists them all, together with our targets. For more information, see our 2018/19 Annual Performance Report, which is available at www.anglianwater.co.uk/about-us/our-reports.

ODI	Target	RAG[1]	Comments
Serviceability: Water infrastructure	Green		The key measure of how we invest in our below-ground water supply assets to keep their service at an acceptable level. It is split across four measures, each assessed as green, amber or red. With three measures at green and one at amber this year, the ODI itself is also assessed as green.
Serviceability: Water non-infrastructure	Green		The key measure of how we invest in our above-ground water supply assets to keep their service at an acceptable level. It is split across three measures, each assessed as green, amber or red. With all three measures at green this year, the ODI itself is also assessed as green.
Serviceability: Sewerage infrastructure	Green		The key measure of how we invest in our below-ground water recycling infrastructure assets to keep their service at an acceptable level. It is split across four measures, with each one assessed as green, amber or red. With all four measures at green this year, the ODI itself is also assessed as green.
Serviceability: Sewerage non-infrastructure	Green		The key measure of how we invest in our above-ground water recycling infrastructure assets to keep their service at an acceptable level. It is split between two measures, both assessed as green, amber or red. With one measure at green and one at amber this year, the ODI itself is also assessed as green.
Service Incentive Mechanism (SIM) score	N/A	90	This measures the level of customer satisfaction with our service out of 100.
Qualitative SIM score – water and sewerage companies (WaSCs) rank	Top three	1st	The qualitative element of SIM is based on ratings from customers who have contacted us throughout the year.
Water supply interruptions	12 minutes	8 minutes, 44 seconds	This measures time lost due to water supply interruptions. This year's performance is well ahead of the level agreed with our economic regulator, Ofwat.
Leakage – three-year average	192Ml/d	186Ml/d	The volume of water escaping from our pipes each day. We have cut leakage by a third since privatisation to industry-leading levels – around half the national average based on the amount of water lost per kilometre of main.
Pollution incidents (Category 3)	298	185	The number of pollution incidents classed as Category 3 by the Environment Agency that are due to escapes from our water recycling network. Performance is ahead of our target, which was to have no more than 298 Category 3 incidents.
Percentage of bathing waters attaining excellent status	67% by 2019/20	65%	The Environment Agency classifies bathing waters as Excellent (required for Blue Flag awards), Good, Sufficient or Poor. This measures the percentage of bathing waters in our region that attain Excellent status. In the majority of cases, declining results have not been as a result of our assets, so we work with others to tackle third-party pollution.
Properties at risk of persistent low pressure	257 by 2019/20	287	The number of properties where customers may be affected by persistently low-pressure water supplies. We supply 2.2 million properties.
Properties flooded internally from sewers – three-year average	448 by 2019/20	342	The number of properties flooded internally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.
Properties flooded externally from sewers – three-year average	6,159 by 2019/20	4,148	The number of properties flooded externally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.

ODI	Target	RAG[1]	Comments
Water quality contacts	1.23	1.18	The number of contacts we receive from customers about the appearance, taste and odour of their water. This is at a record low for the third year running, with this year's total a significant improvement on previous years.
Percentage of sewerage capacity schemes incorporating sustainable solutions	25% by 2019/20	41%	We have set ourselves a target to deliver 25 per cent of the sewerage capacity schemes completed in the five years to 2020 using sustainable solutions. We have delivered 23 such schemes so far, including 2 in this financial year.
Customer Satisfaction Index prepared by UK Institute of Customer Service	Upper quartile by 2019/20	14th out of 28	This measures our performance on the annual Customer Satisfaction Index, prepared by the UK Institute of Customer Service. We are ranked against the other utilities companies that take part in the survey.
Value for money perception – variation from baseline against WaSCs (water)[2]	0%	1%	Each year the Consumer Council for Water asks if customers think our water services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Value for money perception – variation from baseline against WaSCs (sewerage)[2]	0%	1%	Each year the Consumer Council for Water asks if customers think our water recycling services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Fairness of bills perception – variation from baseline against WaSCs[2]	0%	2%	Each year the Consumer Council for Water asks if customers think our bills are fair. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Affordability perception – variation from baseline against WaSCs[2]	0%	2%	Each year the Consumer Council for Water asks if customers think our bills are affordable. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Mean Zonal Compliance	100%	99.95%	The key measure used by the Drinking Water Inspectorate to determine compliance with the stringent regulatory drinking water standards for England and Wales.
Percentage of population supplied by single supply system	24.7% by 2019/20	44.9%	We continue to improve the resilience of supplies to ensure the majority of people can be supplied from more than one source. Through implementing a programme of schemes, we are on course to meet our target for 2020.
Frequency of service-level restrictions (hosepipe bans)	Once every 10 years	Once in the last 10 years	We have committed to limit hosepipe bans and other service restrictions to no more than once every 10 years. The last hosepipe ban was in 2012.
Security of Supply Index (SoSI) – dry year annual average	100	100	Measures how well our networks can cope with pressure on water supplies. Used to identify any risk of a water shortage within our supply area and expressed as a score out of 100.
Security of Supply Index (SoSI) – critical period (peak) demand	100	100	Measures how well our networks can cope with pressure on water supplies. Used to identify any risk of a water shortage within our supply area and expressed as a score out of 100.
Per property consumption (PPC)	305 by 2019/20	323	The average water consumption of the households in our region in litres per household per day. Demand for water in 2018/19 was exceptionally high due to the hot, dry summer of 2018.
Percentage of SSSIs (by area) with favourable status	>50% by 2019/20	99%	We own and manage a lot of land, including 47 Sites of Special Scientific Interest covering nearly 3,000 hectares. This is the percentage of that area judged to be in favourable condition by Natural England.
Environmental compliance (water)	16 schemes by 2020	5	We have a programme of schemes to complete between 2015 and 2020 to comply with environmental obligations, including the Water Framework Directive, the Eels Regulations and the Restoring Sustainable Abstraction programme. This shows the number of schemes completed so far.
Environmental compliance (sewerage)	81 schemes by 2020	39	We have a programme of schemes to complete between 2015 and 2020 to comply with environmental obligations, including the Urban Wastewater Treatment Directive. This shows the number of schemes completed so far.
Operational carbon (percentage reduction from 2015 baseline)	7% by 2020	29%	The carbon emitted as a result of our operational activities – including the effect of decarbonisation of grid electricity.
Capital carbon (percentage reduction from 2010 baseline)	60% by 2020	58%	The carbon emitted as a result of construction projects we undertake.
Survey of community perception	60% by 2019/20	57%	Our survey asks whether people agree that Anglian Water cares about the communities it serves.

1 Red, amber, green status.

2 Performance against our customer perception measures (value for money – water, value for money – sewerage, fairness and affordability) depends on data in the Consumer Council for Water report *Water Matters*. At the time this Annual Integrated Report was approved, *Water Matters* for 2018/19 had not been published, and therefore these performance measures have been added subsequently.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Anglian Water is one of the biggest energy users in the East of England and operates in a region that is particularly vulnerable to climate change. This has informed the development of our integrated business and sustainability strategy, Love Every Drop.

We fully support the Task Force on Climate-related Financial Disclosures (TCFD) and are committed to ensuring our climate change disclosures align with TCFD recommendations. The maturity of our approach means that information relating to climate change can be found throughout our Annual Integrated Report. For clarity we have summarised our response to the TCFD in the table opposite and explained where the reader can go for more detailed information.

The Task Force defines organisations as either 'financial' or 'non-financial' and provides guidance as to the minimum recommended disclosures for each group. Anglian Water is similar to organisations described in the non-financial sector. As such, in reporting we have followed both the general guidance and the supplementary guidance for non-financial groups.

2018/19 HIGHLIGHTS

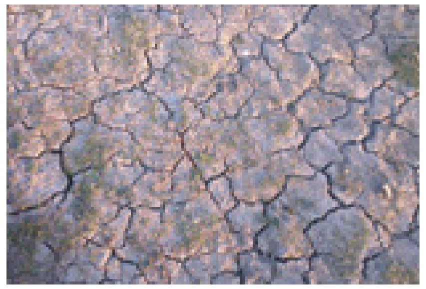
Issued a second Green Bond to support the financing of water and water recycling projects.

Implemented a new process for assessing the climate resilience of our investments.

Consultations on our Water Resources Management Plan demonstrated that the majority (71 per cent) of our customers support investment to ensure resilience to climate change and to future-proof our water supplies against future needs.

Accepted the Government's invitation to prepare an Adaptation Report under the third round of the climate change adaptation reporting power.

On track to exceed a 7 per cent reduction in real terms in gross operational carbon by 2020 from a 2015 baseline.



Invited by the Committee on Climate Change to participate in the preparation of their next Evidence Report to support the UK's third Climate Change Risk Assessment.

Reduced capital carbon in the new assets we built by 58 per cent as compared to a 2010 baseline.

Held a workshop with over 25 senior leaders from across our business to reassess climate risk and agree on further action.

Continued to provide national leadership on climate change through groups including The Prince of Wales's Corporate Leaders Group, the Prince's Accounting for Sustainability Project and the Green Construction Board.

THE PRINCE OF WALES'S CORPORATE LEADERS GROUP

Our full disclosure is available at www.anglianwater.co.uk/climatechange and has been summarised below:

Governance	Our Board has effective oversight of climate-related risks and opportunities. Climate-related risks are included within Anglian Water's top-tier risk register. This is reviewed regularly in detail by the Board. Short-, medium- and long-term targets have been agreed by the Board, and members of the Board chair the groups responsible for reducing carbon emissions and adapting to climate change.
Strategy	In 2016 we committed to become a carbon neutral business by 2050. Our energy and carbon strategy is reducing transition risk and unlocking financial efficiencies. We have submitted two Adaptation Reports to the Government and are in the process of drafting our third. Our most significant physical risks are droughts and flooding. These are being effectively mitigated through collaboration and our long-term plans, which consider more than one climate change scenario.
Risk management	Climate-related risks are identified and assessed during the preparation of our Adaptation Reports. Risks are also identified and managed through the preparation of long-term plans and the delivery of individual investments. The assessment and management of climate-related risks is consistent with the approach used to manage risk throughout the business.
Metrics and targets	Our Greenhouse Gas Report is published on our website. In it we report Scope 1, 2 and 3 greenhouse gas emissions and have short-, medium- and long-term emission reduction targets. Since 2011 our emissions have been measured, managed and reduced in accordance with ISO 14064. We also have targets to reduce climate-related risks such as drought and flooding.

RESILIENCE, RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

Customers expect us to provide a reliable, high-quality service, whatever happens. So resilience has been an important part of our planning and operations for a long time.

'Resilient Business' is one of the 10 core outcomes we agreed with customers in 2013, and we have set ourselves the long-term ambition to make the East of England resilient to the risks of drought and flooding.

Resilience

Ofwat's definition of resilience is "the ability to cope with, and recover from, disruption and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future" (Ofwat, 2017, *Resilience in the round*).

Resilience reflects the overall "capacity of individuals, communities, institutions, businesses and systems to survive, adapt and thrive no matter what kinds of chronic stresses or acute shocks they experience" (adapted from Rockefeller Foundation, 2013).

Risk assessments and mitigation continue to play an important role in responding to business challenges. However, in order to create truly resilient organisations in the face of growing uncertainty, this needs to be supplemented with a broader consideration of resilient systems.

So, we have developed a framework, adopted by many others in the industry, to help us think about how we manage risks over the short term alongside longer-term trends and lower-likelihood risks. The framework builds on Ofwat's approach to 'resilience in the round' and best practice resilience frameworks, for example, the City Resilience Index (Arup for the Rockefeller Foundation, 2016) and the Cabinet Office's definition of resilience.

Ofwat has published guidance on resilience in its PR19 consultation document (Ofwat, 2017, *Delivering Water 2020: Consulting on our methodology for the 2019 price review*). This includes the concept of 'resilience in the round', which recommends that customers should be the focus of the business and three themes of resilience should be considered:

- Corporate resilience: the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in its business operations.
- Financial resilience: an organisation's ability to avoid, cope with and recover from disruption to its finances.
- Operational resilience: the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with and recover from disruption in its ability to provide critical services to customers.

We are constantly developing our resilience approach to ensure robust systems thinking and have incorporated our Resilience Systems Thinking into our AMP7 Business Plan.

'Resilience is the ability to cope with, and recover from, disruption and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future.'

Ofwat's definition of resilience

Risk management

Risk management is a key part of our resilience thinking and central to the achievement of our strategic priorities, and we approach this in several ways:

- At a global level, we consider what are the potential mega trends, and whether we have ensured these are on our horizon when planning for future resilience.
- The National Risk Register also plays a key part in our resilience thinking and helps us prioritise both in terms of likelihood of occurrence and scale of impact.
- We use an all-hazards approach and challenge ourselves to ensure we look at an end-to-end systems approach to the current risks and ensure preparedness for the shocks and stresses we may face.
- We seek to engage with customers to help their understanding of the challenges we face and our understanding of their priorities.

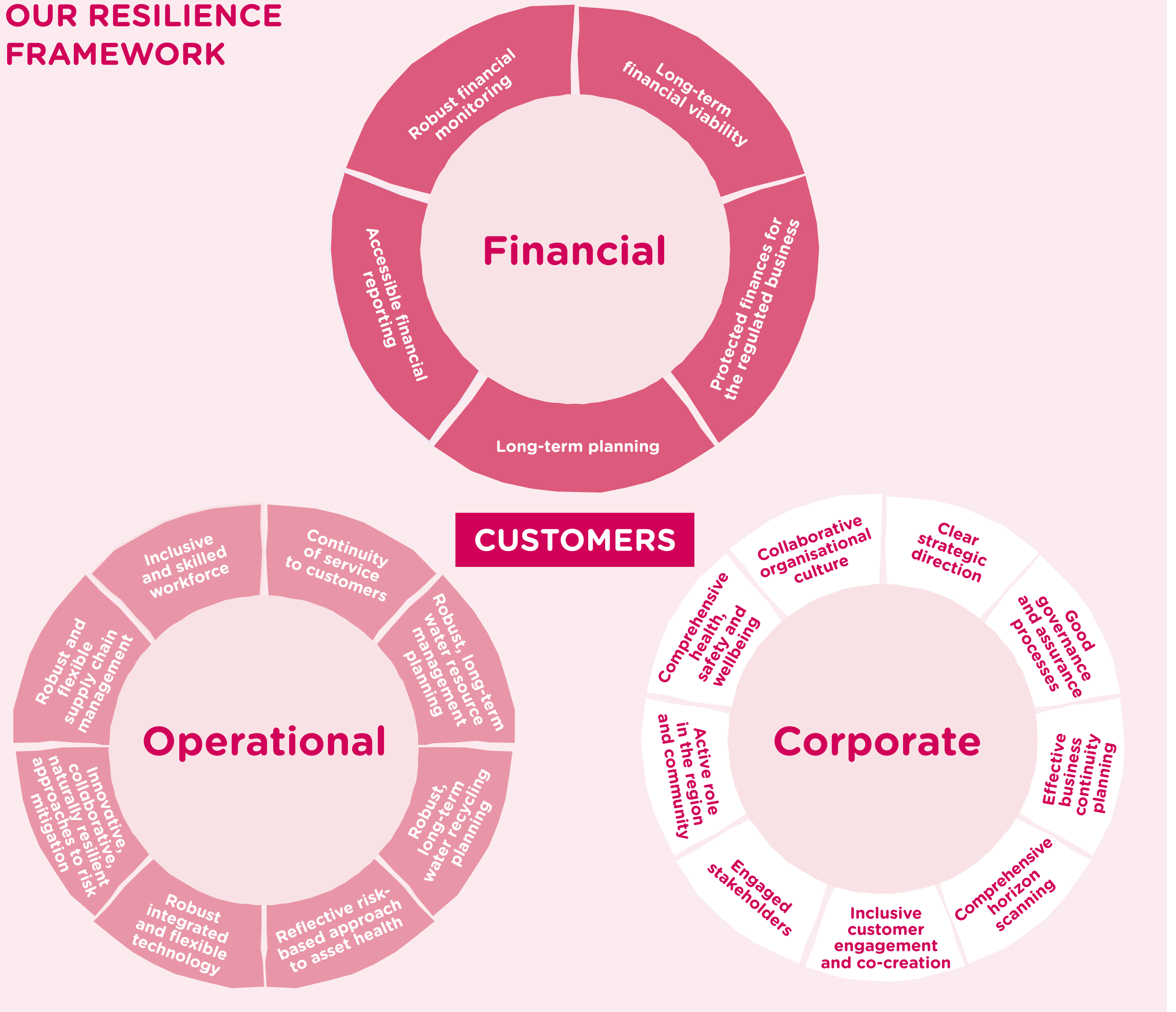
We manage risk across our business through a number of formal and informal processes. These risk management processes sit within our overall governance framework, which includes clear accountabilities, delegated authority limits and well-defined policies and procedures that govern employee conduct.

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

Our risk management system ensures processes are in place for the identification and management of risks measured on both a top-down and a bottom-up basis.

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 and assurance plans are established and embedded within our business operations; and to establish clear ownership and accountability for each of the risks. An IT system is used to record and monitor these risks across the business, which helps ensure a consistent approach to risk management.

OUR RESILIENCE FRAMEWORK



The most significant or principal risks are escalated from the business unit risk registers to be recorded in our top-tier risk register, which is reviewed in detail regularly by the Board. During the course of the past year, the Management Board has also reviewed the top-tier risks and has considered the effectiveness of our embedded processes in the approach to the management of risk that are designed to further integrate risk management within the business.

To provide the Management Board with an overview of the risk landscape, we have mapped the top-tier risks onto a Strategic Business Risk Map. The Risk Map also includes business-wide risks that, although not so significant as to be top-tier risks, the Management Board wishes to keep 'on the radar'.

This overview is reviewed on a monthly basis by management to ensure we have identified and created coverage of all significant risks in the business and can readily identify new risks, see any changes in risks, review our progress in delivering mitigation actions and maintain relevant business controls. This Map will remain dynamic as new risks emerge or there are significant changes to our mitigation actions or controls.

Risk appetite

Anglian Water is exposed to a variety of uncertainties that could have a material adverse effect or impact on our financial condition, our operational performance, our business resilience and our reputation.

We have a structured approach to risk assessment, with the Board reviewing and challenging management's assessment of risk, together with the mitigation measures in place to manage principal risks in the context of our obligations to keep employees safe and provide an essential and efficient service to customers. The Board's assessment of risk helps senior management to determine the mitigating activities required to control risk likelihood and impact to acceptable levels.

For principal risks, we review the current risk level and how our controls provide confidence and assurance around our management of that risk. Where a gap exists between our current position and our mitigated aspiration, we instigate new or revised actions to close any risk gap.

Peer review and discussion at the Board or Management Board form the basis for establishing our overall principal risk status. There may be occasions when a higher level of risk is acceptable, but this is only in cases where the risks are well understood and can be demonstrably managed. The Board regularly reviews Anglian Water's internal controls and risk management processes to support its decision making.

Anglian Water continues to ensure compliance with the Anglian Water Services 2015 Corporate Governance Code. Further information can be found in the Corporate Governance Report on page 103.

OUR MANAGEMENT SYSTEM FRAMEWORK POLICY

Our management systems help ensure we meet customer commitments and deliver our outcomes. These cover areas such as the following:

CUSTOMER

Putting our customers first by delivering a personal, trusted and effortless experience to make Anglian Water a leading service provider in the UK.

WATER QUALITY

Protecting water quality from source to tap, providing confidence that our drinking water supply is always safe and clean.

ENVIRONMENT

Protecting and enhancing the air, water and land where we live while sustaining and maintaining the environment.

ASSET MANAGEMENT

Coordinating our business activities to realise value from our assets, reducing capital and operational carbon, providing the services our customers expect.

RESILIENCE

Effective preparation, response and recovery arrangements to mitigate, minimise and ensure we can cope with the impact of disruptive events.

OUR BUSINESS GUIDE TO AMP6 (2015 to 2020)

We recognise the importance of robust management systems and their role in the ongoing success of our business. In addition to our Health and Safety Charter and Policy, we have defined arrangements for managing quality, environmental, asset management, business continuity and anti-bribery activities.

Peter Simpson
Group Chief Executive

This integrated management system framework sets out all our management system standards in a clear and consistent way aligning to strategic priorities, business goals and good outcomes.

Strategic and business unit plans form the basis on which Anglian Water sets and reviews its objectives, obligations and targets.

Our Health and Safety Charter

Nothing is so important that we cannot take the time to do it safely.

We are committed to the principle that all accidents and harm are preventable.

We will never knowingly walk past an unsafe act or condition.

WE ARE COMMITTED TO

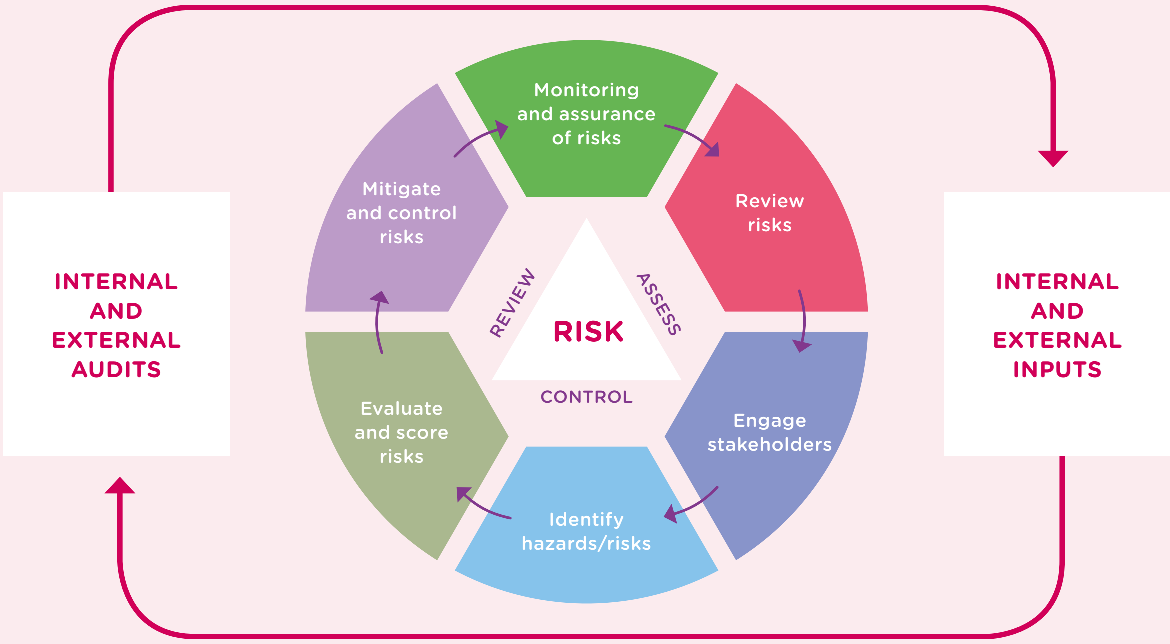
- Directors leading and being responsible for achieving the intended outcomes by keeping our promise to customers
- Delivering excellent drinking water quality
- Making the most of our employees' knowledge and experience by recognising the contribution that they make
- Continually improving the efficiency and effectiveness of our operating processes and this management system framework
- Preventing pollution while protecting and enhancing the quality of the recycled water that we treat and return to the environment
- Complying with relevant legislation, regulations and other needs, including the requirements and standards of:
  - ISO 45001 Health and Safety
  - ISO 9001 Quality
  - ISO 14001 Environment
  - ISO 55001/PAS 55 Asset Management
  - ISO 22301 Business Continuity
  - ISO 37001 Anti-Bribery
  - ISO 27001 Information Security
  - BS 18477 Customer Vulnerability
  - PAS 2080 Carbon Management

WE WILL

- Support the leadership behaviour framework
- Take account of the needs of our stakeholders and interested parties
- Communicate and promote strategic priorities, business goals and good outcomes throughout our business and the companies that work with us
- Undertake business impact analysis to determine critical products or services and ensure that robust arrangements are in place to recover these products or services should they be disrupted in any way
- Maintain data to meet our obligations and have reliable, accurate and complete auditable information on our assets, performance and business activities
- Effectively manage our assets to deliver optimal whole-life value to all of our stakeholders
- Focus on a culture of innovation, collaboration and transformation
- Assess the aspects of our operational activities and their potential impact on the environment

RISK MANAGEMENT PROCESS

Our risk management process identifies, assesses and manages our risks. These risks are broadly categorised as safety, operational, financial, regulatory and compliance with current regulations and law. Risks are formally identified and mapped to ensure consistency and completeness. The diagram below sets out the overall risk management process:



We analyse the potential causes and impacts of risk using a range of governance, compliance and audit activities. The business unit and top-tier risk registers remain key tools that help management to monitor risks and evaluate the impact of individual risks on the business, and also to evaluate risks in the 'aggregate' across a broad spectrum of threats to overall business performance. In addition, this process facilitates the identification of those risks that are determined to be the business' 'principal risks', as defined in the revised Corporate Governance Code.

The Board has met regularly during the year and has assessed the level of risk that it is willing to accept in respect of our strategic priorities for customers and the environment. For each strategic outcome, we have identified the principal threats that might put the achievement of that outcome at risk.

Management also considers new, changing or emerging risks. Through a process of review and discussion, we have developed a methodology for setting an appropriate target position for each principal risk. Where the existing level of risk is assessed as not meeting the target, additional controls or mitigating measures are identified in order to reduce the risk to the target level. This is formally recorded in the top-tier risk register referred to above. In addition, we link the principal risks to our assurance plan to ensure our focus is on the most significant risks.

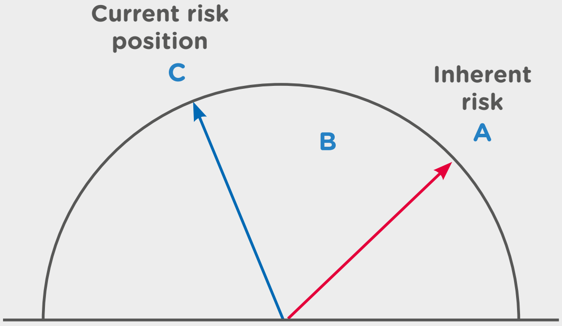
The Board has requested assurance that the controls implemented are tested internally and, where required, externally. This assurance is delivered through business resilience planning and scenario testing, health and safety audits and compliance, internal and external audit activities, external certification, governance and compliance activities.

PRINCIPAL RISKS

The Board has a responsibility to disclose 'significant failings and weaknesses' or areas of concern that have not been resolved by year end. While the Corporate Governance Code (on which Anglian Water's Governance Code is based) does not define 'significant failings', the Board's interpretation of this requirement is that there is a need to disclose any control failure or omission that, if unchecked, has the potential to result in significant financial, operational or reputational damage to the business. Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2019 no red risks were reported.

In this section we describe the Company's principal risks:

- Political, regulatory and legislative changes
- Financing our business
- Pensions
- Regional growth
- Long-term supply demand resilience and climate change
- Failure to deliver our AMP6 plan
- Preparing for AMP7
- Pollutions
- Brexit
- Customer satisfaction
- Health and safety
- Talent and succession
- Cyber security
- Water quality



KEY

We present each risk with an illustrative overview of the risk status:

A An indication of the direction of the inherent risk – i.e. worsening/improving over the past year

B Status of the actions to control the risks

C Status of current risk position

We highlight the Board comfort around the current position of the risk. We report this as follows:

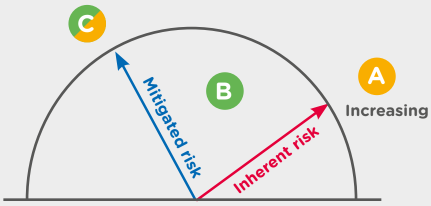
RED: any mitigating actions and any business controls are found to require significant improvements to manage the risk.

AMBER: the risk is emerging or changing and action is in place to develop the mitigation actions and/or through review any business controls are found to be not fully effective.

GREEN: any mitigating actions are on course, and the business controls are in place and effective.

Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concern.

POLITICAL, REGULATORY AND LEGISLATIVE CHANGES



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

We stay abreast of current political, regulatory and legislative matters that may affect our industry or company.

Water companies have continued to be under the national spotlight in an environment where a set of complex social, political and environmental challenges are moving higher up the political agenda.

The level of political and regulatory uncertainty means we see this range of risks, if unmitigated, as Amber.

(B) CONTROLS AND MITIGATION (GREEN)

At the heart of our mitigation of these risks is our delivering a strong business performance; complying with our obligations; focusing on long-term planning; and enhancing resilience to protect our environment and our services to our customers in the future.

We have also developed, at a sector-wide level, a 'Public Interest Commitment' that commits the entire industry to deliver wider benefits to society and the environment, above and beyond the provision of clean, fresh drinking water and effective treatment of recycled water.

There is an ongoing debate around public ownership of water companies. We are actively participating in this, highlighting the achievements of the privatised companies and the improvements the industry has made, including through the Public Interest Commitment. We have also pointed out the risks to future investment that public ownership could bring and the potential harm to pension funds and pensioners if the sector's assets were acquired by the Government at below market value. We argue that the focus should be on how the sector can urgently respond to the meta-challenges of climate change and growth and ensuring that resilience is enhanced, rather than on ownership issues.

We also ensure compliance with current legislation, influence the shape of new policy and forthcoming legislation and monitor the potential impacts of new legislation.

To manage compliance we have numerous business controls and processes, including a legal risk register, as well as our online training system, which we have used to ensure adequate awareness across the business of the risks associated with breaches of legislation such as the Competition Act, Data Protection Act and Bribery Act.

We are embedding improvements in our policies, processes and systems which are designed to ensure that we comply with the requirements of the General Data Protection Regulation (GDPR). In the course of the past 12 months we have updated our privacy notices, improved our processes for dealing with Subject Access Requests and raised awareness of the potential impact of data breaches. The business routinely undertakes Privacy Impact Assessments to ensure our processes and systems are compliant.

Our employees also maintain Level Playing Field training so they understand how to behave and operate in the non-household retail market to minimise the risk of anti-competitive behaviour and ensure compliance with competition law and regulatory requirements.

Anglian Water's anti-bribery strategy is supported by ISO 37001 Anti-Bribery Management System, with processes aligned with the Integrated Management System framework. This system, externally certificated by Lloyd's Register, helps to ensure processes and controls are effective in ensuring ongoing compliance with anti-bribery legislation.

All senior managers are required to confirm that employees within their business unit have taken appropriate steps to comply with the policies that deal with the legislative risks set out above, including completing training where required to do so and, in the case of our anti-bribery strategy, complying with our gifts and corporate hospitality policy.

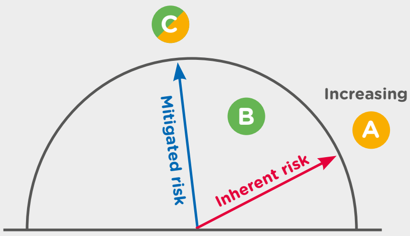
(C) CURRENT RISK ASSESSMENT (GREEN/AMBER)

We assess our current risk position in relation to the threat of nationalisation as Amber, notwithstanding the strength of our controls and mitigation and the enhanced level of influence that we have delivered at a national policy level and with regulators.

On all other areas, our risk assessment is Green, as we have confidence in the relevant business controls to ensure legislative compliance and manage regulatory risk.

We will continue to monitor, test and audit compliance with legislation to maintain a high level of assurance and to highlight any areas requiring action.

FINANCING OUR BUSINESS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

We are funding a totex programme of £5 billion in AMP6 and have gross debt of £6.9 billion to manage and service. Recognising recent challenges from the Government and our economic regulator, we are showing this risk as increasing; however, we have responded to these challenges by reducing shareholder dividends and gearing and improving the transparency and clarity of our financial structure. The volatility in the financial markets and the continued uncertainty around the Brexit process and other world events lead us to continue to maintain a strong focus on this risk, hence an Amber status.

(B) CONTROLS AND MITIGATION (GREEN)

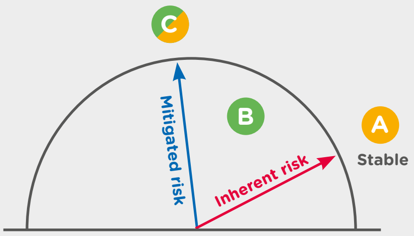
It is critical that we have robust financing and liquidity management arrangements in place. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. Our debt comprises long-term public and private bonds and other debt instruments, with equity (shares) financing the remainder of our regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are linked to inflation (the Retail Price Index and Consumer Price Index), fixed nominal levels or variable nominal rates in accordance with the Board-approved Treasury Policy.

Net debt accounts for approximately 78.1 per cent of our regulatory capital value as at 31 March 2019, as measured in our financial covenants agreed with our debt providers. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average. 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. We manage our financing risks through regular senior-level meetings held with banks, ratings agencies and bond holders, along with internal monitoring of our treasury strategy and liquidity, energy and covenant policies through our Finance, Treasury and Energy Policy Group. We also work closely with the regulator and undertake a number of sensitivity scenarios as we agree our Business Plan for the next five years. This is to ensure that our future funding reflects a level that is financeable in the long run.

(C) CURRENT RISK ASSESSMENT (GREEN/AMBER)

The decisive Board and shareholder action has enhanced our financial robustness through significantly reducing dividends and reducing gearing. We will continue to monitor external factors that may impact the business, and we will also test and audit compliance with legislation as well as our finance contracts to maintain a strong level of assurance and to highlight any areas requiring action.

PENSIONS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

The risk is that the funding levels in the Anglian Water Group Pension Scheme (AWGPS) deteriorate, requiring Anglian Water to inject additional funds. The last triennial valuation was on 31 March 2017, and we agreed a revised funding plan with the Trustees that continues through to 2026. Due to continuing low interest rates and gilt returns, the deficit remains at risk, particularly with the volatility in the financial markets being caused by Brexit. However, the risk has been mitigated as the pension scheme is no longer open to future accruals, and Anglian Water is supporting a members' independent advisory proposal that supports employees in deciding whether it is in their best interests to remain a member of the scheme. No additional years of service are now being added to the pension liability. The liability continues to be subject to risks such as lower investment returns, high inflation, low discount rates and longevity.

(B) CONTROLS AND MITIGATION (GREEN)

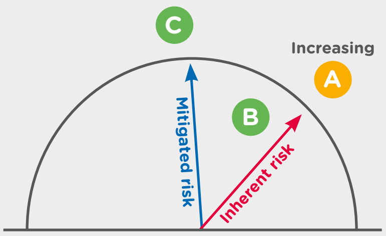
Following an extensive consultation with our employees, employee representatives and Trustees, the AWGPS was closed to future accrual from 1 April 2018. A deficit recovery plan was agreed with the Trustees and work is under way to mitigate further risks, such as volatility caused by higher levels of inflation and lower levels of interest rates. Further interest rate and inflation hedging and de-risking of return-seeking assets through equity sales were undertaken prior to March 2019, and quarterly increases over the next five years have been agreed together with 'calls to action' in the event of market movements, causing a significant change to the recovery plan.

The Strategic Pensions Group has been established to agree and monitor an investment strategy between the Company and Trustees. The long-term aspiration is for the pension scheme to have a portfolio of assets that can fully match future cash flows with an acceptable level of risk and return, at an affordable cost. The aim is for the scheme to be self-sufficient by 2026.

(C) CURRENT RISK ASSESSMENT (GREEN/AMBER)

Over the past year this risk has stabilised due to actions taken. We continue to monitor market conditions.

REGIONAL GROWTH



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

With the Anglian region one of the fastest growing in the UK, managing the forecast rise in population 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.

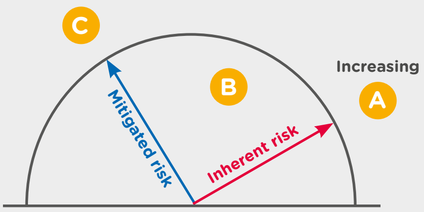
(B) CONTROLS AND MITIGATION (GREEN)

We invest considerable effort in forecasting our supply and demand requirements at a local and a 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. We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources, and our draft Water Resources Management Plan (WRMP) outlines an ambitious, cost-beneficial demand management strategy that is forecast to offset the impacts of growth in our region.

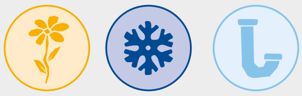
(C) CURRENT RISK ASSESSMENT (GREEN)

Current growth in our region is in line with our AMP6 and AMP7 plans. We have not seen an increase in this risk over the past year, although the longer term is more uncertain.

LONG-TERM SUPPLY AND CLIMATE CHANGE



Outcomes affected by this risk:



(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Ensuring our business is resilient to long-term supply and demand requirements is a stretching target but critical to fulfil our customers' needs. 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 landscape makes us particularly vulnerable to localised flooding during severe weather events. We see the inherent risk continuing to increase for the business, with the effects of climate change, customer demand and environmental challenges, hence an Amber status.

(B) CONTROLS AND MITIGATION (AMBER)

We have been active in the past year, working at a national level on the Long-Term Water Resources Strategy, complemented by the Water Resources East initiative and our WRMP.

We published our first Water Recycling Long-Term Plan (WRLTP) in September 2018, framed by our Strategic Direction Statement and supporting our AMP7 Business Plan. Our first WRMP equivalent for water recycling is industry leading. It provides transparency of our business planning processes for managing the supply of water recycling services to meet the demands of a growing population and allows us to respond to and influence the external market. The WRLTP considers risk from growth, climate change, urban creep, severe drought and customer behaviours. It promotes sustainable solutions for maintaining reliable and affordable levels of service and facilitates working in partnership to mitigate flood risk.

Leadership on climate change adaptation continues to be provided by our Climate Change Steering Group working alongside our Resilience Steering Group. Adapting to a changing climate remains at the heart of our updated Strategic Direction Statement 2020–2045, and this year we have developed a 'framework for resilience' that will allow us to test our current and future plans to ensure we become increasingly resilient to climate change.

More than 20 years ago, we started incorporating climate change in our WRMPs, and in March 2018 we published, for consultation, a draft of our latest WRMP. The plan ensures we are resilient against the median climate change scenario and severe drought. Through the consultation we are also seeking support from our customers for £630 million of investment, which would further mitigate the impact of climate change, drought and future environmental challenges.

We believe that climate change is increasing the risk of flooding of our sites and from our sewers. Therefore, we are continuing to collaborate with other stakeholders to understand the impact of climate change and mitigate these risks. For example, the AMP6 Business Plan included an £8.4 million partnership funding programme to reduce the risk of surface water, fluvial or coastal flooding and the impact of coastal erosion across 52 sites, to protect our assets and/or our customers. We have also spent just over £1.1 million on flood resilience schemes protecting our high-risk sites across water and water recycling, a total of 36 sites.

It remains vital that we prepare for severe weather, both today and in the future. Our Resilience Steering Group takes an overview of activities to manage resilience risks, while our Flood Emergency Response Plans are in place and are regularly reviewed for both water and water recycling higher-risk sites. In addition, we work with other agencies, including the Environment Agency, to understand and use flood risk warning technology.

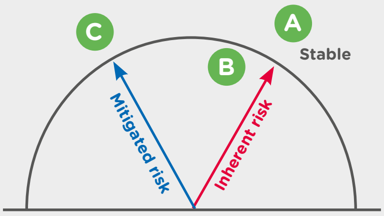
We continue to invest to deliver against our leakage targets, which helps mitigate the impact of extended dry periods. Our WRMP outlines our ambitious future demand management strategy, including significant investment in AMP7 to continue to drive down leakage, install smart meters across our region and roll out our water-saving measures.

The level of risk associated with climate change and drought in the long term is material and hence our assessment of this risk is amber.

(C) CURRENT RISK ASSESSMENT (AMBER)

We are seeing changing and severe weather patterns result in greater challenges to our continued service to customers. Our operational incident room has been open more often in the last year than ever before to manage these events and ensure customer impact is minimal. We are investing to ensure resilience in our supply system and will continue to prepare to mitigate risks from severe weather events. Long-term supply–demand issues will also be high on the radar, and planning will continue to ensure we are well prepared and have adopted a series of measures to reduce the potential impact.

FAILURE TO DELIVER OUR AMP6 PLAN



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

The delivery of our AMP6 plan, our commitments to our customers and the quality and efficiency of our operations are 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.

Our performance is linked to significant penalties or rewards under the 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.

(B) CONTROLS AND MITIGATION (GREEN)

Delivery of our outcomes (and delivery of the ODIs) has required us to adapt our business strategies. We have a detailed programme of investment and improvements to processes, assets and infrastructure to fulfil our customer requirements and improve their experience. 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.

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

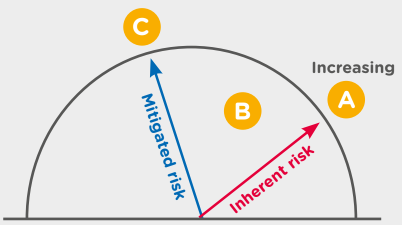
Examples of projects we have implemented include:

- integrating our supply chain into the business; for example, through our delivery alliances
- developing our strategies to reduce costs across our supply chain, refining our procurement and sourcing strategy
- pursuing energy efficiency and energy optimisation of our treatment and distribution systems, implementing new and leading monitoring systems to improve energy consumption
- encouraging business units to implement smaller, locally driven initiatives, drawing on our Love Every Minute programme (based on Lean and Six Sigma methodologies)
- 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
- investing in the delivery of our ODIs to maximise success for our customers. For example, Interruptions to Supply, Leakage, Catchment and Coastal Management and Pollutions
- further developing our Shop Window to innovate and drive investment for an improved customer experience and to meet our goals for water efficiency in the future.

(C) CURRENT RISK ASSESSMENT (GREEN)

We continue to make good progress. Our efficiency in delivery has been essential to mitigate the impact of additional costs that were not included in prices. Being successful in AMP6 has required innovation, collaboration and transformation to continue delivering cost efficiencies while ensuring strong performance on our ODIs.

PREPARING FOR AMP7



Outcomes affected by this risk:

Ofwat's final methodology for PR19 was published in December 2017. It sets out a very challenging framework for companies during AMP7, with an indicative weighted average cost of capital of 2.4 per cent, and very stretching expectations of performance. In April 2018, Ofwat published a further consultation, *Putting the sector back in balance*, which proposed a number of changes to the final methodology, including proposals to share financing outperformance. Together, these changes saw ratings agency Moody's move Anglian Water and a number of other companies to a 'negative outlook' rating in May 2018. Ahead of its final determination in December 2019, Ofwat published in January 2019 its initial assessment of business plans, which reaffirmed Ofwat's position on increasing the challenge in AMP7.

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Ofwat's final methodology sets out the regulatory expectations for companies' ODIs for AMP7.

These include:

- the expectation that a higher percentage of return on regulated equity should be associated with ODI performance in AMP7 compared to AMP6
- conversely, companies failing to achieve their ODI targets should expect to receive higher underperformance payments (penalties)
- the likelihood of an increase in the incentives around Asset Health measures (formerly Serviceability)
- expectations that companies' proposed performance commitment levels for ODIs in AMP7 should be considered stretching, influenced both by heightened expectations and reflecting rewards paid out to some companies in AMP6
- expectations for some core common measures on interruptions to supply, pollution incidents and internal sewer flooding to be set at the forecast future upper-quartile level
- rewards and penalties for ODIs should by default be financial in nature and be paid 'in-period' rather than at the end of the AMP
- the likelihood of 'enhanced' rewards and penalties for either exceptional frontier-shifting performance or, conversely, very poor service.

While there is the opportunity to earn higher rewards for exceptional performance, AMP7 will see an increased challenge around ODI targets.

(B) CONTROLS AND MITIGATION (AMBER)

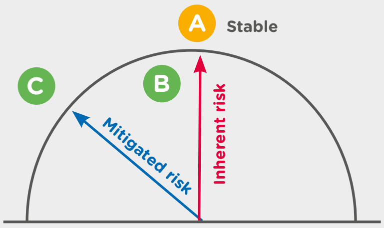
The central core mitigation is the development of the PR19 Business Plan submission. The production of a high-quality, well-evidenced and assured submission provides confidence to Ofwat that our proposals are robust and align with regulatory expectations.

In setting our outcomes, we have implemented a dedicated workstream as part of the PR19 programme. The workstream is responsible for the development of our outcomes to ensure they reflect customer priorities, are based on high-quality valuation and cost evidence, and also that they reflect the current and future business focuses – for example, linking back to our long-term ambitions as set out in our 2017 Strategic Direction Statement. A key part of our ODI strategy is to target a net reward in AMP7, including targeting enhanced rewards on leakage, reflecting our sector-leading performance.

(C) CURRENT RISK ASSESSMENT (AMBER)

We are confident in the PR19 Business Plan delivering a suite of robust proposals, recognising that Ofwat has a significant role in finalising the shape of our ODI levels and incentives.

POLLUTIONS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Leaks, spills and escapes from our water recycling assets, combined with the overall serviceability of the infrastructure, have the potential to cause pollution, damaging or endangering the natural environment.

Such incidents are categorised by the Environment Agency (EA) and, depending on their impact and severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to Anglian Water, and the fines they attract, make them a significant risk. We have seen this unmitigated risk to the business increase due to the scale of fines that are being imposed by the EA, increased scrutiny from our customers and the reputational impact associated with pollution events, hence an Amber status.

(B) CONTROLS AND MITIGATION (GREEN)

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

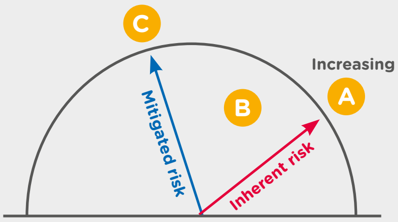
This includes:

- investment on planned preventative maintenance to reduce blockages and consequent pollutions
- a priority 'blue light' or fast response for areas with historical 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
- continuing to enhance our systems to achieve real-time monitoring and reporting of pollution incidents, to provide a one-stop shop for pollution information and analytics to support targeted investment
- aligning our internal processes and procedures to meet changes to Environment Agency guidance
- extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident
- making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets
- investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations
- continuing to work on improving our self-reporting of potential pollution events to the Environment Agency by getting the right information from the field quickly, utilising our telemetry systems to make an assessment of probability and working to improve our monitoring and handling of events.

(C) CURRENT RISK ASSESSMENT (GREEN)

We made good progress over the past year in reducing pollutions, and will continue to look to improve our performance for both our water and our water recycling assets.

BREXIT



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

The UK's withdrawal from the European Union is the single biggest constitutional and legal exercise in decades. Unmitigated, there is potential for far-reaching implications for the business, including:

- implications for the supply chain, including increased costs if there are new tariffs on goods (including chemicals, parts and materials), and delays from customs checks and duties
- restricted access to finance from the European Investment Bank, as the UK has signalled it no longer wishes to be a member but wishes to explore a future relationship
- restricted access to EU labour markets. At present, Anglian Water's exposure to this risk is low in terms of the number of our directly employed workforce originating from the EU. The skills shortage facing Anglian Water owes more to an ageing workforce rather than a migrant workforce. However, there will likely be restrictions on future labour market access when freedom of movement ends and this will further exacerbate an industry-wide challenge
- risk that some domestic policy issues may not be addressed until after Brexit negotiations have concluded, given the resources being dedicated to Brexit
- political instability linked to Brexit, such as an early general election, and the threat of renationalisation.

(B) CONTROLS AND MITIGATION (AMBER)

Continual high-level assessment of the risks and opportunities from Brexit has been undertaken at Management Board meetings since the 2016 referendum. This has been complemented by an increased focus on engaging with politicians and policymakers to ensure we establish Anglian Water as an influential stakeholder and that our messaging and priorities are being received. This includes a much more proactive participation in the parliamentary and governmental policymaking process through submissions to more Government consultations, parliamentary select committee inquiries and face-to-face engagements with senior figures. This approach has been successful as we have seen our submissions having real influence in the recommendations of parliamentary committee reports, repeated invitations to give oral evidence and an increasing parliamentary profile. Additionally, we have created the Public Policy and Regional Engagement teams, with extra resources being allocated to enhance Anglian Water's reputation and engagement with elected officials.

Practically speaking, we are using Brexit as an opportunity to innovate and explore alternative solutions to the risks. Examples of this include:

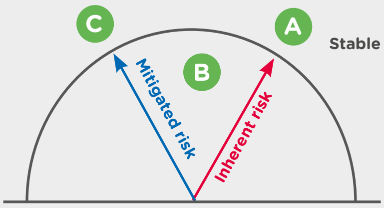
- becoming the first public utility to issue Green Bonds to finance our portfolio of capital projects. This offers a new avenue of finance on terms not dissimilar to those offered by the European Investment Bank
- our involvement in the regional skills agenda continues to grow, through the Greater Peterborough University Technical College, the College of West Anglia and our own Community Education team, as we seek to address the skills gap with home-grown talent. Additionally, our graduate and apprenticeship programmes are expanding to meet the skills challenge
- demonstrating Anglian Water's leadership as a responsible business. In addition to recent accolades, Anglian Water is at the heart of industry-wide efforts to improve public perceptions of the water sector, to ensure that it operates in the public interest.

Elsewhere, we have established a Brexit sub-group that brings together business leaders to coordinate the Brexit preparations, particularly for a no-deal scenario. Preparations taken have included increasing baseline stocks of key parts and materials, diversifying our supply chain, altering operational practices where possible, and increasing storage space and security. This group meets on a weekly basis and feeds into the Water UK-led group that is working with Defra to ensure business continuity.

(C) CURRENT RISK ASSESSMENT (AMBER)

This risk remains Amber as we continue to plan for the possibility of a no-deal Brexit on 31 October 2019 and the associated implications.

CUSTOMER SATISFACTION



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

The customer measure of experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. The Service Incentive Mechanism (SIM) will be replaced by this alternative incentive mechanism, C-MeX. 2019/20 will be a 'shadow year' as the new methodology is finalised, with only the reputational incentives applied. C-Mex comprises two survey elements:

Customer Experience Survey – a customer satisfaction survey among a random sample of the water company's customers; and

Customer Service Survey – a customer satisfaction survey among a random sample of those who have contacted their water company.

Our success depends on customers and stakeholders thinking highly of us following any interaction and on those customers who have not contacted us but have an impression of Anglian Water as their service provider. Our brand and marketing campaigns such as Keep It Clear, Water Efficiency and proactive service notifications are some of the areas that we rely on to help improve our overall reputation. Unwanted media attention – from print, broadcast or social media – has the potential to damage our reputation and erode that trust.

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, hence our continued and extensive investment to ensure a good customer experience.

(B) CONTROLS AND MITIGATION (GREEN)

Delivery of our AMP6 plan and customer outcomes has been critical in maintaining our reputation, and our performance over recent years has helped minimise the impact of this risk, avoiding poor publicity and building on the positive work we carry out across communities and the environment.

It is important that our senior managers and others in key roles around the business are confident and well informed when speaking to the media and in getting our messages across. We have a media training programme in place for Executive Directors and others responsible for the day-to-day operation of the business.

We carry out daily monitoring of both traditional and social media to identify corporate, industry and brand-related issues of interest. This includes issues of wider interest to the business in broader areas of public policy. Press cuttings are circulated under licence to selected Directors and senior managers, and we work more generally to raise awareness of the impact media coverage can have and of the need for early alerts to highlight sensitive or high-risk issues.

Daily monitoring of individual customer interactions with us is also undertaken in order to understand emerging themes and issues and take mitigating actions.

We will undertake 'mirror' weekly customer satisfaction and monthly experience surveys to gather and closely understand our customers' thoughts and feedback. This will feed into our service design reviews and process improvements.

We are also continuing to invest in new IT systems and training to ensure customers only need to contact us once to resolve a problem and that we respond ever more quickly to meet their needs.

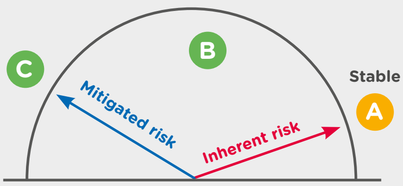
(C) CURRENT RISK ASSESSMENT (GREEN)

We are satisfied with our current risk position, with necessary actions and controls in place.

Many elements will build on the plans we have this year, putting the customer at the heart of what we do and building a strong and efficient business where our people feel empowered and inspired by where they work.

We are undertaking an operating model review in order to set ourselves up for the next AMP from 2020 and beyond, including new challenges and opportunities such as our customer affordability and vulnerability strategies and smart metering.

HEALTH AND SAFETY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Maintaining the health, safety and wellbeing of our employees and customers is paramount. Failing to communicate and implement health and safety policies, procedures and instructions effectively to ensure safe working practices are understood and followed by all employees could result in serious injuries and harm to our employees, contractors and customers. The inherent health and safety risk has not changed over the past year.

(B) CONTROLS AND MITIGATION (GREEN)

The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' safety and believe that work should have a positive impact on their health and wellbeing. Health and safety is a key performance indicator in the business. The Management Board reviews health and safety performance and associated actions monthly, including thoroughly reviewing all significant incidents as well as reporting them to the Board. An in-depth review into health and safety performance is also carried out on a quarterly basis. Performance is also monitored through our ISO 45001-certified Safe and Well management system, with six-monthly external reviews by Lloyd's Register as well as through our internal audit programme.

Our management systems track near misses and actions from audits, inspections and accident/ incident investigations, as well as providing access to current policies and procedures and safe systems of work. Throughout the business we have a series of health, safety and wellbeing networks that report to our internal and external stakeholders so that best practice is shared and any issues or concerns can be effectively managed. We also have a central Health and Safety Hub where we ensure all areas of the business are consulted and engaged in any potential health and safety issues or changes.

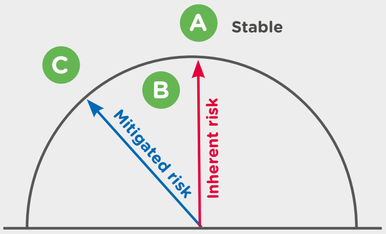
Underpinning our approach is LIFE, a philosophy that brings health, safety and wellbeing together and reflects our vision of happier, healthier and safer employees. LIFE is about moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. It creates a culture of care and concern where we look out for each other, build strong relationships with good conversations and support making the right choices, not just at work. LIFE is a long-term commitment; this year we have run numerous health and wellbeing campaigns focusing on mental health – helping to break the stigma, raising awareness and piloting a mental health awareness course – and also physical health, with a big campaign focused on musculoskeletal health. We have also held LIFE orientation sessions, which more than 5,000 people, including personnel from our alliance partners, have attended, focusing on the safety element.

Our three-year health, safety and wellbeing plan ensures we are focusing on current and relevant areas and potential high risks and that there are consistent standards across the Company and our partner organisations. The plan has five key outcomes – a healthier and safer work environment, positive engagement and collaboration, high-risk activities managed, hazardous processes understood, and clear and simple safety information. Progress on the plan is reviewed, giving assurance we are managing our potential risks. One of the key focuses for the plan was to digitalise health and safety, and to date we have seen IT developed for incident reporting, for capturing active management and for health and safety training using virtual reality and online learning tools.

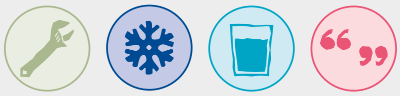
(C) CURRENT RISK ASSESSMENT (GREEN)

We will always remain vigilant to maintain the highest health and safety behaviour in the business. We are developing reporting systems and reviewing health and safety data, looking for improvements and learning from others. With current mitigations and initiatives, this risk is stable.

TALENT AND SUCCESSION



Outcomes affected by this risk:



(A) UNMITIGATED RISK DESCRIPTION (GREEN)

The performance of our business could be adversely affected by the loss of key talent and by ineffective succession planning for key positions. At Board level, we need to plan effectively for a smooth succession for the Chairman, individual Non-Executive Directors, the CEO and the CFO. Substantial change in the composition of the Board could destabilise its effective functioning and the relationships between executive management, Non-Executive Directors and shareholders.

(B) CONTROLS AND MITIGATION (GREEN)

Our succession-planning processes are fully embedded, with rigorous analysis to check the quality and depth of succession pipelines for key posts. We have plans for immediate and holding-the-fort candidates and manage a talent pool identifying and developing candidates for Director-level and critical posts, with external market mapping used where appropriate.

Extensive development programmes are in place, building future talent at graduate, middle and senior management levels, and we continue to invest in career development support for graduates and apprentices to maximise retention and progression. There is also a Diversity Action Plan in place to keep the promotion and retention rate of talented female managers under review.

Pension freedoms and the publicity around them may mean that more experienced members of staff with specialist knowledge may consider early or partial retirement. A proactive approach to identifying those staff has been undertaken, and succession plans are well advanced to mitigate any impact this may have.

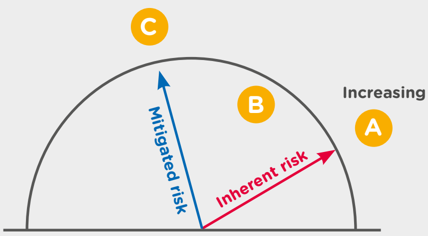
Executive management carries out regular and formal reviews of our succession-planning process and talent pipelines, using external advisors where appropriate.

We have a range of approaches to support the development of senior managers and those employees with key skills and talent, including non-financial retention arrangements, such as active development plans and training, as well as Long-Term Incentive Plan (LTIP) and bonus schemes.

(C) CURRENT RISK ASSESSMENT (GREEN)

There has not been a change in this risk status over the past year, with the Board reviewing our succession plans annually.

CYBER SECURITY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Cyber risk is a high priority for the business; over the last year the volume and complexity of threats targeting companies in our sector have continued to increase with publicly acknowledged nation state actors operating in the utilities sector in both the UK and the United States. We have responded accordingly to protect our data and information, hence this risk is Amber.

(B) CONTROLS AND MITIGATION (AMBER)

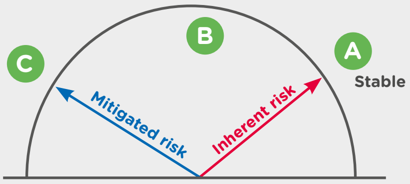
We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external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

In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. We have recently implemented a security operations centre, managed by Airbus, to ensure additional controls, cyber monitoring and system protection.

(C) CURRENT RISK ASSESSMENT (AMBER)

With cyber risk increasing, we are mitigating this risk by keeping abreast of the ever-shifting cyber landscape and actively adapting our controls to minimise risk. However, the overall and increasing risk is at Amber.

WATER QUALITY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

The supply of safe, clean, high-quality water is central to our business and underpins public health. Failure to uphold the required standards in this most fundamental of services would have serious consequences for our business and for our customers.

(B) CONTROLS AND MITIGATION (GREEN)

We have a mature Drinking Water Safety Planning approach that meets regulatory requirements, underpinned by our extremely robust Policies and Standards for Water Supply Hygiene. These ensure that we manage water quality from source – through our water treatment works and water storage points – and in our network of pipes into customers' premises. We are delivering a significant AMP6 capital maintenance and quality enhancement programme to ensure we maintain and improve our drinking water quality and have recently received full support from the Drinking Water Inspectorate (DWI) for our PR19 quality enhancement programme.

Regular audits are carried out both internally and externally. Water Services processes are externally assessed annually by Lloyd's Register Quality Assurance to ISO 9001 Quality Management and ISO 22301 Business Continuity Management System standards. Our comprehensive internal audit programme is signed off each year by the Director of Water Services and the senior leadership team, and is delivered by members of the Water Quality and the Risk and Systems teams. The UK's national accreditation body UKAS audits and accredits our laboratory as part of ISO 17025.

In addition, our senior manager-led Water Services Compliance Monitoring Group and Water Quality and Environmental Compliance Group regularly review performance against key water quality parameters. Our Board of Directors also regularly reviews key targets and quality standards.

Sub-groups track progress with key water quality programmes of work – for example, monthly Storage Point Delivery Group and weekly senior manager-led conference calls track the progress of external and internal water storage point inspection programmes, an area where we have seen significant improvement in performance.

We also ensure that operational and scientific employees are trained and assessed as competent. We are the first company to be certificated under the Competent Operator Scheme 2018. This has been awarded to us from the water industry competency assessment body, Energy & Utility Skills, working in close coordination with the DWI. Our industry-leading Licence to Operate programme sets benchmarks and expectations for competency and is being further enhanced by a drive towards professional registration such as chartership through professional bodies, including the Institute of Water. The Water Services Competent Operator Scheme has recently been certificated to ISO 17024 Certification of Personnel.

(C) CURRENT RISK ASSESSMENT (GREEN)

While there has been continued focus on quality standards, we have not seen a change in the mitigated risk to our business.

VIABILITY STATEMENT

Background

The Directors are responsible for ensuring the resilience and viability of water and wastewater services to meet the needs of customers in the long term. This means Anglian Water must be able to avoid, manage and recover from disruptions to its operations and finances.

The Directors' review of the longer-term viability of Anglian Water is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. This activity is strengthened by a culture throughout the Company of review and challenge. Our vision and business strategy aim to make sure that our operations are resilient and our finances are sustainable and robust.

As part of Anglian Water Services Limited's (AWS's) approach to defining risk appetite, each year the Directors review our specific risk tolerance levels and consider whether our decision-making behaviours over the past year have been consistent with these risk levels. The Directors confirmed that the Company's behaviours over the past year had been in line with our risk appetite.

In April 2019 Ofwat issued Information Notice IN 19/07 setting out its expectations for companies in issuing long-term viability statements. In our Annual Performance Report (available at www.anglianwater.co.uk/about-us/our-reports), we provide additional detail on the processes and assumptions underpinning our long-term viability statement and demonstrate our compliance with IN 19/07.

Look-forward period

As one of the 10 regional water and sewerage services companies operating in England and Wales, Anglian Water's prices are set by the industry regulator Ofwat for five-year Asset Management Plan (AMP) periods, which support the Company's underlying costs. This provides reasonable certainty over future tariffs, revenues, costs and cash flows over the current AMP (April 2015 to March 2020).

In previous years the Directors' assessment covered a five-year period. However, in the current year the Directors are aligning the assessment to a rolling 10-year period based on a longer-term Business Plan that takes us from the current AMP (AMP6) through the next two price reviews, AMP7 (2020–2025) and well into AMP8 (2025–2030). This fits with our long-term planning horizon and means that we can test financeability beyond the AMP7 price review.

We have developed robust business forecasts that cover this period; these are aligned to our PR19 Business Plan submission, which included forecasts for AMP8, providing the Directors with confidence to extend the look-forward period well into AMP8.

The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect Anglian Water's viability and therefore should be taken into account when setting the assessment period. These were modelled appropriately within our downside scenarios.

The Board also considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.

Key assumptions

The next nine years of the 10-year look-forward period are outside the current AMP and therefore subject to the final outcome of the current price review (AMP7, covering April 2020 to March 2025), which is yet to be confirmed, and the following five-year price review (AMP8, covering April 2025 to March 2030), for which further uncertainty exists. However, at this stage we have used the very challenging indicative weighted average cost of capital (WACC) rate that Ofwat has signalled for AMP7 as the basis for our stress testing. We have applied a similar WACC for AMP8. We have also incorporated in our base assumptions the 'gearing benefit sharing mechanism' introduced by Ofwat for AMP7 and beyond. We also note that in an incentive-based regulatory regime we have the opportunity to be rewarded for outperforming the regulatory determination. However, given the low indicative WACC rate, we have had to take mitigating action in our planning, resulting in substantial reductions in dividends paid to shareholders in order to achieve financial resilience. Finally, we take note of the Water Industry Act, which requires Ofwat to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying-out of their statutory duties.

In making this statement, the Directors have assumed that funding for capital expenditure in the form of capital markets or bank debt will be available in all reasonable market conditions. They have also considered the impact of the Group structure, intra-group transactions and any other Group activities on the viability of the regulated business.

Benefits of the securitised structure

The highly covenanted nature of our financing arrangements (often described as a whole-business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders, and lenders, compared to the regulatory frameworks that we are governed by. Over the current AMP we have made progress in reducing our gearing by retaining cash in the business and reducing the level of dividends we pay, and we have announced that we expect to see a significant reduction in dividends to our shareholders through to 2025 and beyond. Lower gearing has the advantage of providing greater headroom against covenants and demonstrates stronger credit metrics, which provides the appropriate flexibility and greater resilience to deal with unexpected cost shocks should they arise.

Principal risks

We have set out the details of the principal risks facing Anglian Water on pages 77 to 89, described in relation to our ability to deliver our 10 Outcomes as explained on page 7. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently. This process is described in more detail on pages 72 to 76.

The Directors regularly review business plans that show projected cash flows for the remainder of the current AMP period and long-term cash flow modelling projections that extend into the next AMP period and beyond. As we approach the end of a five-year AMP period and await the outcome of the next price determination, the business makes assumptions about the forthcoming AMP7 price review. Similar assumptions are made for the following price review in AMP8.

Stress testing the Business Plan

In stress testing its financial viability, Anglian Water considers its credit rating and the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance the Company's investment programme. At each Regulatory Price Review and throughout the AMP, the Board satisfies itself that the agreed five-year Business Plans ensure adequate covenant headroom over the rolling 10-year period. This includes extensive downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they have the greatest risk to the business.

The following scenarios have been used individually and in combination to model the impact on the overall performance of the business, on the ability of the business to service its debt and on its credit rating:

- financial and operational performance impacts arising from severe but plausible crystallisation of the principal risks set out in pages 77 to 89 and the likely effectiveness of available mitigating actions
- no further totex outperformance in the current AMP and beyond
- material totex underperformance (overspends of 10 per cent across an AMP)
- material ODI penalties (of up to 3 per cent of return on regulated equity applied in a single year)
- regulatory fines and legal penalties (up to 3 per cent of turnover applied in a single year)
- unfunded pension liabilities and potential cost impacts of Brexit
- the potential impact of credit rating agencies downgrading the debt for any companies in the Group
- cost of debt increases (2 per cent above base-level assumptions across an AMP)
- significant inflation fluctuations (both 1 per cent above and below base-level assumptions for each AMP).

Stress testing has also included combined scenarios based on material totex and retail cost underperformance, along with ODI penalties all occurring in each year of the five-year look-forward period. Other combined scenarios include significant cumulative cost underperformance, coupled with material reductions to revenue associated with lower inflationary scenarios.

Mitigating actions

For each sensitivity and combined scenario, where needed, we identify the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the Company's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the Company's cost base or reduce financing costs. The Board regularly reviews current and forward forecasts for financial and operating performance and would use this to determine appropriate action to avoid the cumulative impact of repetitive cost risks tested in the downside scenarios. Evidence of the shareholders' support for equity injections is provided by the equity injections made in the current year of £22.0 million, and the fact that our AMP7 five-year Business Plan includes further equity injections in order to reduce our gearing.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios, such as dam failure, pluvial and fluvial flood, terrorism, and public and employer's liability. There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim. However, it is an important consideration in terms of medium-term liquidity.

The Board formally reviews the output of the stress testing twice a year.

Assurance

Robust internal assurance is provided by the Board reviewing and challenging the stress test scenarios selected and the risk mitigation strategies. The Directors also obtain annual independent third-party assurance on the integrity of the long-term cash flow model that underpins the financial projections. In addition, this statement is subject to review by Deloitte, our external auditor. Its report is set out on pages 203 to 209.

Directors' statement

The Directors submitted the Company's Business Plan for the next AMP to Ofwat in September 2018. Following Ofwat's publication of its initial assessment of this plan in January 2019 ('the IAP'), the Company provided a response to Ofwat, addressing all the actions raised in the IAP. Ofwat will issue its Draft Determination of Plan in July 2019 and the Final Determination in December 2019. This will form the basis for setting customer charges over the following five years. The submitted plan shows that the expectation of a reduced cost of capital set by Ofwat will be a significant challenge to our financeability in the next AMP.

However, we are an efficient company with a history of outperformance, and we would expect to agree a Business Plan with Ofwat that is financeable and meets both the respective obligations and responsibilities of the Company and Ofwat. Subject to the final outcome of the new periodic review for AMP7 being materially aligned with our base plan and our plans that take us through to the end of AMP8, the Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due at least to March 2029 and is financially resilient. This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted and review of the business plans and strategic models, combined with the robust risk management process and mitigations described above.

FINANCIAL PERFORMANCE

The financial results have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Financial results

The underlying and statutory financial results are summarised in the table below:

	2019 Total £m	2018 Total £m (Restated[1])
Revenue	**1,354.7**	1,312.0
Other operating income	**13.6**	11.1
Operating costs	**(630.5)**	(592.1)
Depreciation	**(348.8)**	(335.6)
Operating profit	**389.0**	395.4
Finance income (adjusted)[2]	**2.9**	1.6
Finance costs[3]	**(331.4)**	(344.1)
Underlying profit before tax	**60.5**	52.9
Finance costs – fair value (losses)/ gains on financial derivatives	**(98.4)**	117.6
Finance income – inter-company interest receivable	**-**	191.8
Profit on disposal of the non-household retail business	**-**	4.6
Statutory (loss)/profit before tax	**(37.9)**	366.9

1 The comparatives have been restated to reflect the impact that IFRS 15 'Revenue from Contracts with Customers', which came into effect on 1 April 2018, had on the accounting for grants and contributions. Grants and contributions are now recognised immediately as revenue rather than being deferred and released to 'other operating income' over the expected useful life of the related assets. This has the effect of increasing revenue in the year ended 31 March 2018 by £63.1 million, and reducing other operating income by £16.1 million, compared with the previous year's published report. In addition, we have reclassified certain income, previously treated as negative expenditure, as other operating income. This has the effect of increasing other operating income in the prior year by £11.1 million and increasing operating costs by the same amount, and therefore operating profit is unchanged for this item. Note that IFRS 9 'Financial Instruments' was not applied retrospectively and therefore the comparatives are not presented on an IFRS 9 basis.

2 The comparatives have been adjusted to show finance charges excluding interest receivable on an inter-company loan of £191.8 million. From 29 March 2018 this Group interest income, and the associated round trip dividend, ceased when the related inter-company loan was settled as part of a simplification of the Group structure, therefore no equivalent adjustment is required in the current period.

3 In order to show performance on an underlying basis, the fair value losses on financial derivatives of £98.4 million (2018: gains of £117.6 million) have been shown separately in the table because these are volatile non-cash annual movements that distort the actual underlying economic performance.

Revenue

On 1 April 2018 IFRS 15 'Revenue from Contracts with Customers' came into effect. The principal consequence of this new standard is that grants and contributions income is recognised as revenue immediately, whereas in the past it was spread over the life of the related asset and included in other operating income. Revenue, excluding grants and contributions, for the year was £1,280.3 million (2018: £1,248.9 million), an increase of £31.4 million (2.5 per cent) on last year. This primarily reflects the regulatory pricing mechanism, increases in household consumption due to the hot, dry summer and growth in customer numbers. The increase in demand experienced over the summer months was, as expected, not sustained for the remainder of the year.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year these have increased by £11.3 million to £74.4 million, which reflects an increased level of adopted sewers and pumping stations in relation to new housing developments and the significant diversion of existing infrastructure for the Cambridge to Huntingdon A14 road improvement scheme.

Other operating income

Other operating income comprises primarily external income from power generation, biosolid sales to farms, rents received and various other non-core activities. During the year other operating income increased by £2.5 million to £13.6 million, principally due to increased power generation.

Operating costs

Operating costs for the year increased by £38.4 million (6.5 per cent) to £630.5 million. This increase is explained in the following table:

Increases/(decreases) in operating costs (before depreciation and amortisation)

	£m
One-off net costs in 2017/18 not repeating	(3.5)
General inflationary increases	17.7
Increase in energy prices and costs	10.4
Increase in minor repair activities to maintain water and waste water below-ground infrastructure	10.0
Providing more effective solutions through operational maintenance, rather than capital investment	9.0
Dealing with the 'Beast from the East' and the exceptional hot, dry summer – proactive leakage management and avoiding interruptions to customer supply	6.5
Operating costs of newly commissioned plant	4.8
Reduction in actuarial pension charge	(1.1)
Reduction in bad debt charge	(2.4)
Net efficiency savings achieved	(13.0)
Net increase in operating costs	38.4

Pension costs were reduced by £4.4 million by closing the defined benefit scheme in March 2018. However, this was partially offset by a £3.3 million provision recognised in respect of Anglian Water's obligation under the principle of guaranteed minimum pension equalisation between male and female employees.

The cost and efficiency savings are derived from a range of initiatives including energy conservation and self-generation, optimising the sourcing of commodities, centralised management of operations, renegotiating supplier contracts on improved terms, a number of productivity improvements from embedding more lean thinking and processes into the business and more efficient asset maintenance programmes.

Depreciation and operating profit

Depreciation is up 3.9 per cent compared with last year, consistent with the impact of newly commissioned assets in the year and a reduction in the useful life of various operational assets.

Operating profit has decreased by 1.6 per cent to £389.0 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Financing costs and profit before tax

Underlying finance costs (excluding fair value gains and losses) decreased from £344.1 million in 2018 to £331.4 million in 2019. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, where the year-on-year average Retail Price Index (RPI) fell from 3.7 per cent to 3.2 per cent, and the increase in interest capitalised reflecting a higher level of capital projects in progress.

There was a fair value loss of £98.4 million on derivative financial instruments in 2019, compared with a gain of £117.6 million in 2018. The driving factors for the loss in 2019 compared to the gain in 2018 were a rise in forward inflation expectations together with a fall in forward interest rates. During the year, forward inflation increased by circa 12 basis points (2018: 13 basis point fall) and forward interest rates decreased by 16 basis points (2018: 19 basis point increase). Fair value gains and losses include a charge of £11.7 million relating to the restructuring of derivatives that were cash settled in the period. The balance of the fair value gains and losses are non-cash in nature and have no material effect on the underlying commercial operations of the business.

Underlying profit before tax for the year was £60.5 million, compared with £52.9 million in the prior year. This increase reflects the lower finance costs (excluding fair value gains/losses on derivatives) due principally to a lower RPI, partially offset by the reduction in operating profit.

Taxation

Our underlying effective tax rate is in line with the rate of corporation tax before considering losses surrendered from other Group companies. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2019, other than corporation tax, amounted to £256 million (2018: £227 million), of which £82 million was collected on behalf of the authorities for value-added tax and employee payroll taxes. All of our taxes are paid as they become due.

Current tax

The current tax charge for the year was £55.9 million (2018: £44.0 million). The increase was mainly due to a charge that arises on adoption of IFRS 15 and an increase in profits before taking account of fair value adjustments on derivative financial instruments, which have no current tax effect. This is offset by the claiming of capital allowances.

Deferred tax

The deferred tax credit has increased from £9.4 million to £61.0 million. The main reason for this increase was the movement in fair value on financial derivatives, which changed from a gain of £117.6 million last year to a loss of £98.4 million this year. There was also an increase in the credit in respect of prior years and the credit due to the reduction in corporation tax rates.

Our relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment, the interest we pay to fund that investment and utilisation of surplus Advance Corporation Tax.

Successful fourth year of AMP6 investment programme

AMP6 gross capital expenditure[1] in the appointed business for the year was £440.0 million (£246.8 million on capital maintenance, £193.2 million on capital enhancement), compared to £467.2 million in the third year of AMP6[2]. This level of expenditure is broadly in line with management expectations and includes £45.2 million of capital maintenance spend in respect of our commitment to reinvest £100 million of efficiencies over the AMP, as announced in 2017. Good progress is also being made with the £65 million of reinvestment in resilience announced in March 2018, with capital expenditure in the year of £10.2 million – this will, among other benefits, improve resilience in some critical parts of our network. In addition, £13.8 million of reinvestment expenditure in the year was included in operating costs.

We have successfully delivered a number of our obligations for the Environment Agency through innovative and lower-build approaches, which has enabled us to both reduce carbon and deliver best whole-life cost solutions. These schemes at places such as Ingoldisthorpe, Great Dunmow and Stanbridgeford will not only form the basis of our Green Bond-funded investment plan, but will also serve as a blueprint for the approach we want to take in the next five-year regulatory period.

Over the 2015–2020 five-year period, we are investing well over £2 billion through our capital investment programme, delivering our Business Plan in terms of both regulatory outputs and in support of our Outcome Delivery Incentives (ODIs).

1 Stated on an IFRS basis but excluding capitalised interest and adopted assets acquired at nil consideration, and grossed up for diversions and similar income of £10.9 million (2018: £6.3 million), which prior to the adoption of IFRS 15 on 1 April 2018 was netted against capital expenditure.

2 The comparative is updated to reflect the impact of IFRS 15 – previously £6.3 million of diversion income was offset against capital expenditure, but is now classified as revenue.

Financial needs and resources

In the year to 31 March 2019, Anglian Water sourced £450 million of funds in term debt (£447.8 million net of discounts) and made long-term debt and derivative repayments of £119.3 million. The new funds were the result of a second round of Green Bonds issued in the year, in both the US and the UK financial markets, the proceeds of which will be used to finance our capital expenditure. Debt repayments comprised a £6.2 million finance lease repayment; the repayment of the JPY 15 billion (£65.9 million) 2.925 per cent bonds and associated cross-currency swap that matured in December 2018; and £35.0 million of amortising redemptions on EIB loans. In addition, Anglian Water paid £11.7 million to close out pre-hedge positions no longer required as a result of the commitments made to reduce the gearing of the Company.

At 31 March 2019, Anglian Water had borrowings net of cash of £7,159.8 million (£6,380.3 million excluding derivatives), an increase of £263.4 million (£215.7 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,934.6 million, derivative financial instruments of £779.5 million (excluding energy derivatives of £1.0 million) and cash and deposits of £554.3 million. The increased net borrowings primarily reflect the ongoing capital investment programme.

The business generated cash from operations of £700.7 million in the year (2018: £690.8 million). The increase primarily reflects the increased revenues in the year, partially offset by higher operational costs.

Distributions available to the ultimate investors

Dividends paid out of the Group for the year ended 31 March 2019 were £68.0 million (2018: £86.1 million), which equates to £6.80 per share in issue when the dividend was paid (2018: £8.61 per share).

The Directors have proposed a final dividend for the year ended 31 March 2019 of £2.12 per share[3], which is a total of £67.8 million. Based on the available free cash flow there was capacity to pay a dividend of £193.3 million. However, the Directors have significantly reduced the dividend to £67.8 million in line with their de-gearing target. This distribution has not been accounted for within the 2018/19 financial statements as it was approved after the year end.

3 Note that at 31 March 2018 there were 10.0 million £1 ordinary shares in issue, and at 31 March 2019 this had increased to 32.0 million £1 ordinary shares, which has the impact of significantly reducing the dividend per share figure.

On 15 March 2018, Anglian Water announced its plans to reduce dividends to its ultimate shareholders and borrowings through to 2025, resulting in a significant reduction in the Company's level of debt and gearing, while continuing to meet its investment commitments. Gearing is targeted to reduce to less than 80 per cent by 2020, with further reductions in AMP7.

The Company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2020) and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows. The Directors consider this cash-based approach to provide a more appropriate assessment to ensure the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with Condition F of the Licence. Notwithstanding dividend capacity available under this policy, as noted above, the Company plans to significantly reduce dividends to the ultimate shareholders, invest more in resilience and reduce borrowings through to 2025.

Equity injection

In October 2018 the Group made an equity injection of £22.0 million into AWS as part of its stated plan to further reduce the level of gearing. Additional equity injections are scheduled through to 2025.

Liquidity

The Company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2019, the Anglian Water Services Group held cash, deposits and current asset investments of £554.3 million (2018: £287.1 million). The increase in cash held is the result of the Company raising finance to support anticipated capital and operating expenditure through to the end of the current AMP and refinancing of maturing debt early in AMP7. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 20 on pages 172 to 174 of the accounts.

The Company has access to £600.0 million of facilities (2018: £600.0 million), which were undrawn as at 31 March 2019, to finance capital expenditure and working capital requirements. In addition, the Company has access to a further £400.0 million of liquidity facilities (2018: £390.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuances are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the Company, AWS Financing Plc (AWSF) and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Company on utilisation of the facility.

Interest rates

The Company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 58.8 per cent (2018: 58.5 per cent) of the Company's borrowings were at rates indexed to inflation, 35.1 per cent (2018: 35.0 per cent) were at fixed rates and 6.1 per cent (2018: 6.5 per cent) were at floating rates. At 31 March 2019, the proportion of inflation debt to regulatory capital value was 50.0 per cent.

Pension funding

As previously reported, on 31 March 2018, following a year of consultation with our employee representatives, employees and Pension Trustees, the defined benefit pension scheme for Anglian Water Group and Hartlepool Water was closed to future accruals for existing members. In addition, the Company has an unfunded pension liability of £45.8 million (2018: £47.2 million).

At 31 March 2019, the closed defined benefit scheme, net of the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £3.5 million for all schemes, compared to £9.1 million at 31 March 2018. This modest reduction in surplus reflects a worsening of market conditions in March 2019, asset performance in the year being below expectations and a reduction in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £12.5 million was made, compared with £10.8 million in the prior year.

Annual Performance Report

Under Condition F of its Licence, Anglian Water is obliged to provide the Water Services Regulation Authority, Ofwat, with additional accounting information to that contained in the statutory financial statements. This information is presented in the Annual Performance Report, a copy of which is available on the Anglian Water Services website: www.anglianwater.co.uk/about-us/our-reports.

Non-financial information statement

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

We integrate this information throughout this report and so the table below is designed to help you find key elements on non-financial matters.

Reporting requirement	Policies and standards that govern our approach[2]	Current activities and risk management
Environmental matters	Love Every Drop outcomes	Smaller footprint, pages 64–66 Flourishing environment, pages 61–63 Principal risks, pages 77–89 Climate-related disclosures, pages 70–71
Employees	Making the right choices – code of behaviour Health and Safety policy Dignity at work code of conduct Relationships at work policy	Our people: happier, healthier, safer, pages 46–49
Human rights	Making the right choices – code of behaviour Dignity at work code of conduct Data protection policy Information retention policy Privacy policy Modern slavery statement	Our people: happier, healthier, safer, pages 46–49
Social matters	Public Interest Commitment Employee volunteering guidelines – Love to Help	Positive impact on communities, pages 50–52
Anti-corruption and bribery	Making the right choices – code of behaviour Competition law compliance policy Anti-bribery policy Corporate hospitality policy Whistleblowing policy	Audit Committee Report: Risk management and internal control, page 112 An ethical business, page 49
Description of principal risks and impact of business activity	How we're addressing opportunities and challenges, pages 22–23	Risk management, pages 72–76 Principal risks, pages 77–89 Business long-term viability statements, pages 90–92
Description of the business model	Our business model, pages 24–25	Board statement of Company direction and performance, Annual Performance Report[1]
Non-financial key performance indicators	Non-financial performance measured against 32 commitments agreed with Ofwat	Outcome performance table, pages 68–69 Annual Performance Report[1]

1 The Annual Performance Report may be found on the Anglian Water Services website (www.anglianwater.co.uk/about-us/our-reports).

2 Policies and standards for Making the right choices – code of behaviour, Modern slavery and Whistleblowing are available at www.anglianwater.co.uk/governance; Anti-bribery is available at www.anglianwater.co.uk/about-us/who-we-are/our-suppliers/; privacy policy is available at www.anglianwater.co.uk/about-us/legal/privacy-notice.

This Strategic Report was approved by the Board of Directors on 29 May 2019 and signed on their behalf by Claire Russell.

Claire Russell
Company Secretary
29 May 2019

GOVERNANCE

CONTENTS

CHAIRMAN'S INTRODUCTION

Dear Stakeholder

I present the Corporate Governance Report for the year ended 31 March 2019. Information on the Company's performance during the year can be found in the Strategic Report on pages 3 to 97 and the Company's financial statements start on page 145.

Transparency and governance

As referenced in my Chairman's welcome on page 8, during the year we have improved transparency within our corporate structure by removing our redundant Cayman Islands company. We have also begun to de-gear the business in line with the commitment that we gave to Ofwat in March 2018.

As detailed on page 103, in response to both Ofwat's revised Board Leadership, Transparency and Governance Principles and wider changes in corporate governance, the Company has developed the Anglian Water Services Corporate Governance Code 2019. The 2019 Code establishes stretching governance requirements for the Company and we will report on compliance with our new Code in our 2020 Annual Integrated Report.

Annual Performance Report

For the second year, the Company's Annual Performance Report is being published as a separate document. This report contains a statement from the Board, which focuses on how the Company has set its long-term ambitions and targets and how the Company is delivering for everybody that it serves.

Board appointments

During the year the Nomination Committee conducted a search and selection process for both a new Chief Financial Officer and a new Independent Non-Executive Director. These searches culminated in the recommendation to the Board that Zarin Patel be appointed as an Independent Non-Executive Director, with effect from 31 October 2018, and that Steve Buck be appointed as Chief Financial Officer. Steve Buck will join the business on 31 May 2019 and will become a member of the Board following a thorough induction and handover from Scott Longhurst, our retiring Chief Financial Officer.

Risk

During the year the Board has reviewed in detail the top-tier risk register. Detailed disclosures in relation to our risk management process are included in the Strategic Report on pages 72 to 89.

Structure of the report

Over the following pages you will find the Directors' biographies (pages 100 to 102), the Corporate Governance Report (pages 103 to 110) and the Reports of the Audit, Nomination and Remuneration Committees. Information on our Board evaluation can be found on page 109 and information on the Company's approach to diversity on page 116.

Stephen Billingham
Chairman
29 May 2019

BOARD OF DIRECTORS

Stephen Billingham INED
Chairman of the Nomination Committee
Member of the Remuneration Committee

Stephen Billingham was appointed to the Board in November 2014 and became Chairman on 1 April 2015.

Stephen is also Chairman of Urenco Ltd and Chairman of the Audit Committee and Senior Independent Director of Balfour Beatty plc.

Stephen has been Group Finance Director (CFO) of the FTSE 100 power generator British Energy Group plc and the Group Finance Director (CFO) of WS Atkins plc, the UK's largest engineering consultancy, Executive Chairman of Punch Taverns plc, the UK's second largest pub owner, and Chairman of the Royal Berkshire NHS Foundation Trust. He has also worked for Severn Trent plc and British Telecom plc.

Natalie Ceeney, CBE INED
Member of the Audit Committee
Member of the Remuneration Committee

Natalie Ceeney was appointed to the Board in May 2018.

Natalie is also a Non-Executive Director of Countrywide plc and Sport England and chairs the Board of Innovate Finance, an independent membership association that represents the UK's global FinTech community.

Natalie has a strategy consultancy background at McKinsey & Company. Her executive career has included CEO roles at HM Courts & Tribunals Service, the Financial Ombudsman Service, the National Archives and as a member of HSBC's UK executive team. Natalie is a graduate of the University of Cambridge.

Dame Polly Courtice, DBE, LVO INED
Member of the Nomination Committee
Member of the Remuneration Committee

Polly Courtice was appointed to the Board in April 2015.

Polly is Founder Director of the University of Cambridge Institute for Sustainability Leadership. She is a Director of the Judge Business School Executive Education Limited, a By-Fellow of Churchill College and an Honorary Fellow of Murray Edwards College at the University of Cambridge. She is a Director of Jupiter Green Investment Trust and serves on the environmental/sustainability advisory boards for a number of leading companies.

In 2016 Polly was made a Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 she was made a Lieutenant of the Victorian Order (LVO). Polly was awarded the 2015 Bright Award for Environmental Sustainability from Stanford University Law School and in 2016 was recognised with a Lifetime Achievement Award from Ethical Corporation.

John Hirst, CBE INED
Chairman of the Audit Committee
Member of the Remuneration Committee
Member of the Nomination Committee

John Hirst was appointed to the Board and as Chairman of the Audit Committee in April 2015. He was appointed as Senior Independent Non-Executive Director in January 2016.

John is a Non-Executive Director of Ultra Electronics Holdings plc (for which he is also the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees) and Marsh Limited (for which he is also a member of the Audit, Nomination, Remuneration and Risk Committees). He is also a Non-Executive Director and Chairman of the Risk Committee for Jelf Insurance Brokers Limited, part of the Marsh group. John is Chairman of the British Standards Institution, the National Oceanography Centre and SUDEP Action. He is also a director of three smaller companies; IMIS Global Limited, White Square Chemical Inc and Afontech Limited. John is a Trustee of Epilepsy Research UK.

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

Zarin Patel INED
Member of the Audit Committee
Member of the Nomination Committee

Zarin Patel was appointed to the Board in October 2018.

Zarin is currently an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership plc. She also sits on the Board of Trustees of the National Trust and chairs its Audit & Risk Committee.

Zarin was most recently the Chief Operating Officer of The Grass Roots Group PLC, a customer and employee engagement specialist. She was the BBC's Chief Financial Officer and a member of its Board from 2004 to 2013, during which time she helped to transform the BBC into a fully digital broadcaster. Prior to the BBC she spent 16 years at KPMG working on FTSE quoted conglomerates in a variety of sectors. Zarin is a chartered accountant.

Paul Whittaker INED
Member of the Nomination Committee
Chairman of the Remuneration Committee

Paul Whittaker was appointed to the Board in October 2013 and became Chairman of the Remuneration Committee in January 2015. This role is one of a small number of advisory and consultancy activities he undertakes for infrastructure companies.

Paul Whittaker became Director, UK Regulation at National Grid plc in April 2006. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the boards of the two main UK operating subsidiaries – National Grid Electricity Transmission plc and National Grid Gas plc. Immediately prior to that he was Group Head of Strategy.

His career started in British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working in the US, Egypt and Ireland. He joined National Grid when it merged with Lattice in 2002.

Peter Simpson ED
Chief Executive Officer of Anglian Water Group

Peter's career in the water industry has covered eight countries across three continents, including as Regional Director for Europe and South America based in the Czech Republic, and Senior Vice President based in the US.

He has been Chief Executive Officer of Anglian Water Group since October 2013 and was previously Managing Director of Anglian Water from January 2010 and Chief Operating Officer from 2004.

He was Chairman of Water UK from April 2012 to October 2013 and is a Past President of the Institute of Water.

Peter is a member of Cambridge University's 'Programme for Sustainability Leadership' Climate Change Leaders Group. This influences at a national, EU and global level to reduce carbon emissions and to champion resource efficiency in water, energy and other natural resources.

Peter also works with Business in the Community (BITC) as Chair of the Water Taskforce and East of England Advisory Board as well as being part of the BITC Circular Economy Team and Place Leadership Teams.

Peter became a Trustee of WaterAid in 2018. WaterAid is an international non-governmental organisation focused on providing clean, safe drinking water, sanitation and hygiene for everyone.

Peter is a Chartered Water and Environmental Manager, a Chartered Scientist and a Chartered Environmentalist. In 2016, he was made an Honorary Fellow of both the Society of the Environment and of the Chartered Institution of Water and Environmental Management. He is a Companion of the Chartered Management Institute. He holds an MBA from Warwick Business School.

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

Scott Longhurst was appointed Group Finance Director of Anglian Water Group in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's non-regulated businesses in addition to his financial responsibilities. Prior to joining Anglian Water, he spent most of his career with Shell and TXU Corporation.

Scott moved from Shell in 2000 to TXU and, from early 2001, was based in Dallas, US, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company. In February 2004, he was appointed Group Controller and Chief Accounting Officer of TXU Corporation.

Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell, encompassing corporate, operating company and joint venture activities across Europe, the Far East and Middle East.

Scott is a Fellow of the Institute of Chartered Accountants in England and Wales and a founding member of HRH The Prince of Wales's Accounting for Sustainability CFO Leadership Network. He is also a Non-Executive Director and Chair of the Audit Committee of Infinis Energy Management Limited.

James Bryce NED
Member of the Nomination Committee
Member of the Remuneration Committee

James Bryce was appointed as a Non-Executive Director in December 2014. James is a Managing Director in CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a Managing Director at Royal Bank Equity Finance, where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBEF, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University.

James is also a Director of Associated British Ports Holdings Limited and Glencore Agriculture Limited. He was appointed an alternate Non-Executive Director of Anglian Water Group Limited on 1 December 2014 and as a Non-Executive Director in May 2018.

Niall Mills NED
Member of the Nomination Committee
Member of the Remuneration Committee

Niall Mills was appointed as a Non-Executive Director in April 2014. Niall is employed by First State Investment Management (UK) Limited, where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall is also a Director of Electricity North West and of several other fund investments across Europe. He has been a Non-Executive Director of Anglian Water Group Limited since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

Duncan Symonds NED

Duncan Symonds was appointed as a Non-Executive Director on 1 November 2016. Duncan is the Director of Asset Management for the IFM Investors European Infrastructure team. He also represents IFM Investors as a Director on the boards of Global Infraco S.a.r.l., Airports Group Europe S.a.r.l., Luxpoort S.a.r.l. and Midlands Expressway Limited and is an alternate Director on the Board of Anglian Water Group Limited.

Duncan is a Fellow of the Institution of Civil Engineers with over 20 years' experience of the construction industry. He holds an MBA from Cranfield School of Management.

KEY

INED Independent Non-Executive Director
ED Executive Director
NED Non-Executive Director

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2019

Principles of corporate governance

In January 2019, Ofwat issued a revised set of Board Leadership, Transparency and Governance Principles (the BLTG Principles), which consist of four broad objectives and a series of supporting provisions. These principles supersede the previous BLTG Principles, which were issued in 2014. Ofwat has also written to companies stating that it proposes to insert a new provision into the Licences of all companies that will require companies to meet the objectives contained in the BLTG Principles and explain in a manner that is effective, accessible and clear how companies are meeting the four objectives.

In July 2018, the Financial Reporting Council (FRC) published the 2018 UK Corporate Governance Code. Separately, in December 2018, the FRC published the Wates Corporate Governance Principles for Large Private Companies (Wates Principles). Both the 2018 UK Corporate Governance Code and the Wates Principles apply to accounting periods beginning on or after 1 January 2019.

In response to both Ofwat's revised BLTG Principles and the wider changes in corporate governance referred to above, the Company developed the Anglian Water Services Corporate Governance Code 2019 (the 2019 Code). The 2019 Code was approved by the Board on 27 March 2019. The 2019 Code incorporates Ofwat's revised BLTG Principles together with most of the provisions contained in the 2018 UK Corporate Governance Code. Only those parts of the 2018 UK Corporate Governance Code that cannot be sensibly applied to a company in private ownership have been omitted. Although compliance with the Wates Principles would have been sufficient, the Board was keen to adopt more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code.

This report details compliance with the 2015 Code, which incorporates Ofwat's 2014 BLTG Principles. The 2019 Code came into effect on 1 April 2019 and the Company will report against compliance with the 2019 Code in its Annual Integrated Report for the year ending 31 March 2020. In addition, the Board has also given consideration to compliance against The Companies (Miscellaneous Reporting) Regulations 2018, which will apply to the Company in relation to the financial year that commenced on 1 April 2019 and will be reported against in the Annual Integrated Report for the year ending 31 March 2020.

Copies of the 2015 Code and 2019 Code can be found at www.anglianwater.co.uk/governance. The Company Secretary keeps compliance with the relevant corporate governance standards under review and any changes recommended are subject to approval by the Board.

Corporate governance arrangements resulting from securitisation

In 2002, a securitised structure was put in place. As part of these arrangements, the Company entered into a Common Terms Agreement (CTA) with its debt investors. The CTA sets out the terms and conditions of the Company's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN. The CTA restricts amendments to the Articles of Association of the Company without obtaining prior consent from the Security Trustee. Additionally, as a result of provisions within the CTA, the Directors do not have the power to allot or repurchase the Company's shares.

The corporate governance measures put in place in 2002 are designed to ensure that the Company has the means to conduct its regulated business separately from other companies within the Anglian Water Group, and that all dealings between other companies within the Anglian Water Group and the Company are on an arm's-length basis.

A restructuring exercise was carried out in May 2018, as a result of which the previous intermediate parent company of the Company, Anglian Water Services Overseas Holdings Limited (AWSOH) – a Cayman Islands-registered company – was replaced with a new UK-registered company, Anglian Water Services UK Parent Co Limited (AWSUK). This restructuring exercise was taken to improve the Company's transparency and to simplify its financial structures.

AWSUK owns the entire issued share capital of the Company (32 million ordinary £1 shares), and has assumed all of the obligations of AWSOH under the CTA.

Under the CTA, and following the restructuring referred to above, the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG):

- Anglian Water Services Holdings Limited
- Anglian Water Services UK Parent Co Limited
- Anglian Water Services Limited
- Anglian Water Services Financing Plc.

AWSOH was dissolved in January 2019.

The CTA includes certain requirements regarding the composition of the Boards of the AWSFG companies, including the Company, which are designed to ensure that those Boards remain independent of the wider Group. In August 2018, the Company changed its Articles of Association such that the Board comprises a majority of Independent Non-Executive Directors. No Director may vote on any contract or arrangement between the Company and any other Anglian Water Group Company if he/she is also a Director of that Anglian Water Group company. In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board.

The Board

The Board's aim is to ensure the effective delivery of the Company's strategy. The Board has identified six strategic priorities for AMP6, which are:

1. influencing and responding to market reform and regulatory change
2. responding to changing customer influence and power
3. driving business efficiency and Outcome Delivery Incentive (ODI) performance
4. securing long-term water resources and resilience
5. managing quality and environment risks
6. developing our organisation and culture.

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of our strategic priorities. The Board has a formal governance matrix, which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues. A list of matters reserved to the Board appears at www.anglianwater.co.uk/governance. This document also shows which decisions are reserved to the Board of Anglian Water Group Limited (AWG). They include:

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

One of Ofwat's 2014 BLTG Principles is that a regulated business must act as if it is 'a separate public listed company'. Companies that are governed by the Listing Rules must obtain shareholder approval before concluding a material transaction (materiality being determined by reference to the Class tests set out in Rule 10). Such transactions are likely to result from a major change in strategy and might include (for example) the acquisition of another undertaker (or a part thereof). The Board therefore considers it to be reasonable to ask the ultimate owners of the Company to approve material changes in strategy given that this power is broadly analogous to the approval power of shareholders in a listed company. Where matters require the approval of the AWG Board, the role of the Board is to consider the relevant proposal and to make a recommendation to the AWG Board for approval. In formulating their recommendation, the Directors of the Company are mindful of their duty under the Companies Act 2006 to act in the way that is likely to promote the success of the Company (which requires Directors to have regard to the likely consequences of any decision in the long term while also having regard to the interests of other key stakeholders, including employees and customers).

Matters delegated to management are set out in a Scheme of Delegation. Typically, these matters comprise financial approvals at levels that are not considered by the Board to be material, as well as routine operational decisions and minor regulatory approvals.

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

Stephen Billingham
(Non-Executive Chairman)

Peter Simpson
(Chief Executive Officer)

Scott Longhurst
(Managing Director, Finance and Non-Regulated Business)

Natalie Ceeney
(Independent Non-Executive Director, appointed 14 May 2018)

Dame Polly Courtice
(Independent Non-Executive Director)

John Hirst
(Senior Independent Non-Executive Director)

Zarin Patel
(Independent Non-Executive Director, appointed 31 October 2018)

Paul Whittaker
(Independent Non-Executive Director)

James Bryce
(Non-Executive Director)

Niall Mills
(Non-Executive Director)

Duncan Symonds
(Non-Executive Director)

The following Directors resigned from the Board during the year:

Steve Good
(Independent Non-Executive Director, resigned 31 October 2018)

Chris Newsome
(Director of Asset Management, resigned 11 August 2018)

Jean Spencer
(Director of Strategic Growth and Resilience, resigned 11 August 2018)

At 31 March 2019, in addition to the Chairman, Stephen Billingham, there were two Executive Directors, five Independent Non-Executive Directors and three Non-Executive Directors. None of the Directors has a formally approved alternate.

The Company is required under the terms of its Licence to ensure that the composition of the Board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the Company. The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Company's strategy and performance. The Board is satisfied that the composition of the Board is such that there is an appropriate balance of skills, experience, independence and knowledge of the Company. During the year the composition of the Board changed such that the Board now comprises a majority of Independent Non-Executive Directors. The Board considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the Board's decision taking. Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 100 to 102.

Stephen Billingham is also Chairman of the Company's ultimate parent, AWG. The 2015 Code does not prohibit chairmanship of other companies in the Group, and on appointment as Chairman on 1 April 2015, the Board considered him to be independent in judgement and character, notwithstanding the existence of his other directorships.

Stephen Billingham remains independent of investors and management and has no relationship with any of the Company's shareholders, except for his chairmanship of AWG. None of the other situations listed in provision 29 of the 2015 Code, which might otherwise call into question his independence, apply. Stephen Billingham is a Director of Balfour Beatty plc, which is a supplier of services to the Company. However, the services provided are not material for either company and he has no direct or indirect involvement in the contracts.

The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2019. The Board concluded that all the Independent Non-Executive Directors remain independent of management and not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2015 Code.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the Company rather than service contracts, which include the expected time commitment of the appointment. Copies of these letters can be found at www.anglianwater.co.uk/governance.

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

Roles and responsibilities

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) can be found at www.anglianwater.co.uk/governance. The Chairman's commitment to the Company and to its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on page 100. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

A document setting out the role and duties of the Senior Independent Non-Executive Director has been agreed by the Board and can be found at www.anglianwater.co.uk/governance.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender). Non-Executive appointees are required to meet with Ofwat prior to their appointment to the Board and are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table below.

Board composition and roles		
Chairman	Stephen Billingham	Responsible for leading and managing the Board, its effectiveness and governance. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
Chief Executive Officer	Peter Simpson	Responsible for the leadership and day-to-day functioning of the Company, with a scope covering operations, finance, regulation, strategic delivery and commercial assurance, customer services, information services, human resources, corporate communications and legal.
Managing Director, Finance and Non-Regulated Business	Scott Longhurst	Supports the Chief Executive in developing and implementing strategy and in relation to the financial and operational performance of the Company. Responsible for the Group's non-regulated business.
Independent Non-Executive Directors	Natalie Ceeney Dame Polly Courtice Zarin Patel Paul Whittaker	Responsible for providing constructive challenge and bringing independence to the Board and its decision-making process. Particularly: • bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management • scrutinising and challenging the performance of the Company's business • assessing risk and the integrity of the financial information and controls.
Senior Independent Non-Executive Director	John Hirst	Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the Company if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.
Non-Executive Directors	James Bryce Niall Mills Duncan Symonds	Responsible for providing constructive challenge to the Board's decision-making processes. They do this by: • bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management • scrutinising and challenging the performance of the Company's business • assessing risk and the integrity of the financial information and controls.

Board meetings

The Board held 10 scheduled meetings during the year ended 31 March 2019. In addition, the Board held two scheduled meetings between 31 March 2019 and the date of signing this report. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairmen of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by those respective committees since the previous Board meeting.

Board and committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2019 is shown in the table below.

During the year, 14 other Board meetings were held, some at short notice, to deal with the following matters: delegating authority to the Treasury function; a prospectus renewal; annual renewal of the liquidity facility; a Green Bond issue; the appointment of a corporate representative to vote at a meeting of Market Operator Services Limited; and the provision of a statutory certificate to Ofcom, pursuant to which the Company is permitted to install electronic equipment in the public highway.

Since 31 March 2019, two further scheduled Board meetings have been held, which all Directors attended.

Further meetings of the Audit Committee and Remuneration Committee were held on 23 May 2019. All members attended these meetings.

Board Committees are authorised to engage the services of external advisors as they deem necessary in the furtherance of their duties at the Company's expense.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham*	10/10	3/3	6/6	6/6
James Bryce	10/10	–	5/6	4/6
Natalie Ceeney	9/9	2/2	–	4/4
Dame Polly Courtice	10/10	–	6/6	6/6
John Hirst	9/10	3/3	6/6	6/6
Scott Longhurst**	10/10	3/3	–	2/6
Niall Mills	7/10	–	4/6	4/6
Zarin Patel	5/5	1/2	3/4	–
Peter Simpson**	10/10	3/3	6/6	6/6
Duncan Symonds***	8/10	–	2/6	2/6
Paul Whittaker	10/10	–	6/6	6/6

*Stephen Billingham attended the Audit Committee meetings by invitation, following stepping down from the Committee on 31 October 2018.

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

***Duncan Symonds is not a member of the Remuneration or Nomination Committees but attended meetings during the year as Manoj Mehta's alternate. Manoj Mehta is a member of the Nomination and Remuneration Committees but is not appointed to the Board of the Company.

Former Directors who served during the year:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Steve Good	6/6	1/1	1/2	2/2
Chris Newsome	3/3	–	–	–
Jean Spencer	3/3	–	–	–

Board Committees

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

Audit Committee

Details of the terms of reference of the Audit Committee, its membership and activities during the year are contained in the Audit Committee Report on pages 111 to 114.

Nomination Committee

Details of the terms of reference of the Nomination Committee, its membership and activities during the year are contained in the Nomination Committee Report on pages 115 to 116.

Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the Company's remuneration policy and the remuneration paid to Directors during the year are contained in the Remuneration Committee Report on pages 117 to 139.

Information and professional development

The approach the Company took to Director training and professional development for the year ended 31 March 2019 was as follows:

- training sessions were generally focused on topics that were unique to the sector
- where all employees received training on a topic (for example, the General Data Protection Regulation [GDPR]) the Board also received training
- training was delivered by the business (save in exceptional cases where it was appropriate to bring in an external expert)
- training was run in tandem with scheduled Board meetings.

Training topics covered during the year included:

- approach and thinking around plastics
- digital strategy
- the work of the Customer Engagement Forum (CEF)
- the Six Capitals approach
- corporate governance (including Ofwat's BLTG Principles)
- GDPR
- health and safety obligations
- the sentencing guidelines regarding environmental offences.

In addition, Directors were also offered the opportunity to:

- attend a LIFE Orientation training module
- attend a CEF meeting
- participate in eLearning courses (including on GDPR) offered across the Company.

The Company also offers to fund participation on externally provided training courses. All Board members are entitled to receive, at the Company's expense, independent professional advice on any matters relating to their responsibilities as Directors.

Periodically, the Board visits different business locations to enable the Directors to meet with local management and employees, and to update and maintain their knowledge of and familiarity with the Company's operations. During the year, the Board visited the Shop Window in Newmarket to see its operations in action and to meet with staff.

The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties. The Company Secretary is available to all Directors and is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

New Directors undergo an induction programme on appointment, as part of which they receive a full background information pack. This pack includes, among other things, business plans, the Annual Integrated Report for the Company, the top-tier risk register, a briefing note and a Board paper on Directors' duties, conflicts and declarations of interest, the Company's Articles of Association, a Group structure chart and the Love Every Drop manifesto.

Both Natalie Ceeney and Zarin Patel undertook their inductions during the year. To ensure that both Directors had a clear understanding of the responsibilities attached to being an independent non-executive director in the water industry, the Company arranged for both Directors to attend a pre-appointment meeting with representatives from Ofwat. During these meetings they discussed various matters, such as what they envisaged their role being on the board of a regulated company; their understanding of Ofwat's strategy and the BLTG Principles; issues affecting the Company past, present and future; and its expectations for their respective induction programmes.

In addition, both Natalie Ceeney and Zarin Patel visited operational sites, including a water treatment works and a water recycling centre. They also received briefings from Executive Directors and a number of senior managers covering, among other matters:

- the business and strategy of the Company
- their legal and regulatory responsibilities as a Director of the Company
- key risks managed by the Company.

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. A thorough evaluation of the Board was conducted during the year. This was facilitated by the Company Secretary, under the direction of the Chairman. The process involved each of the Directors being invited to complete an online questionnaire, which included questions on the operation of the effectiveness of the Board and its Committees, and the performance of the Chairman and individual Directors. The output from the evaluation was used as a basis for discussions between the Chairman and Board members, where necessary. The results were also compiled into a report, which was presented to the Board at its meeting on 27 March 2019 for consideration and debate.

The Chairman confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board. Although no material shortcomings in relation to the operation of the Board and its Committees were highlighted during the evaluation, the Board recognised that there were further opportunities to improve its efficiency.

Separately, the Non-Executive Directors, under the leadership of the Senior Independent Non-Executive Director and with input from the Executive Directors, conducted an evaluation of the Chairman. Feedback was given to the Chairman by the Senior Independent Non-Executive Director.

Relations with shareholders

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

The Company maintains a website at www.anglianwater.co.uk, which is regularly updated and contains information about the Company's operations.

Risk management and internal control

Detailed disclosure in relation to the Company's approach to managing risk is included in the Strategic Report on pages 72 to 92 along with details of the Company's principal risks and an assessment of the future viability of the business.

The Company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts.

These include:

- the formulation and deployment of Company accounting policies and procedures
- policies governing the maintenance of accounting records, transaction reporting and key financial control procedures
- monthly operational review meetings, which include, as necessary, reviews of internal financial reporting issues and financial control monitoring
- ongoing training and development of appropriately qualified and experienced financial reporting personnel.

For the year ended 31 March 2019, the Company's internal and financial controls included the following:

- an internal audit programme, outsourced to PricewaterhouseCoopers LLP. The internal auditor carries out a comprehensive review of internal controls and formally reports its findings and recommendations to the Audit Committee
- an annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility, which is subsequently reviewed by the Audit Committee
- a formal controls questionnaire completed by the business twice a year and reviewed by the internal auditor, with the conclusions being highlighted to the Audit Committee
- a regular review by the Board of the top-tier risk register
- an annual review of certain financial controls, by the Company's external auditor, as part of its year-end audit. The findings of the most recent review were reported to the Audit Committee in March 2019 and no significant failings or weaknesses were identified from this review
- a review by an independent assurance provider of the information that Ofwat requires the Company to publish and other key corporate data.

Corporate governance statement

As noted above, the Company has elected to comply with the 2015 Code on a voluntary basis. The Board confirms that it has complied with the 2015 Code throughout the year under review and remains compliant as at the date of this report.

This report was approved by the Board of Directors on 29 May 2019.

Claire Russell
Company Secretary
29 May 2019

AUDIT COMMITTEE REPORT

Chairman
John Hirst

Other members
Natalie Ceeney
Zarin Patel

Meetings
Three

Meetings also regularly attended by:
Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Peter Simpson, Chief Executive Officer; members of Anglian Water Group Limited Audit Committee; representatives of the internal and external auditors; and Claire Russell, Company Secretary.

Composition of the Committee
Stephen Billingham and Steve Good both stepped down from the Committee on 31 October 2018 and were replaced by Natalie Ceeney and Zarin Patel. Stephen Billingham continues to attend Committee meetings as an observer.

Directors' biographies are available on pages 100 to 102.

Available to view on the Company's website (www.anglianwater.co.uk):
Audit Committee's terms of reference
Whistleblowing Policy

Role of the Committee

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes, which exist to identify, assess, mitigate and manage risk. Internal audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Committee's primary functions are to:

- monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- review financial statements and significant financial returns to regulators
- review the integrity of the Company's systems of internal control
- consider the effectiveness of the risk management systems and whether they provide reasonable levels of mitigation against material misstatement and losses
- monitor and review the effectiveness of the internal audit function
- oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- review and approve the annual audit plan
- monitor the provision of non-audit services by the external auditor.

Membership and attendance

The composition of the Committee changed during the year, with Stephen Billingham and Steve Good stepping down on 31 October 2018 and being replaced by Natalie Ceeney and Zarin Patel. John Hirst is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers. He was formerly Group Treasurer of ICI plc and Chairman of the Audit Committee at Hammerson plc and is therefore considered by the Board to have relevant financial experience. Zarin Patel is a chartered accountant. She was formerly Chief Financial Officer of the BBC and is an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership plc and is therefore considered by the Board to have recent and relevant financial experience. Natalie Ceeney has considerable financial services experience, having worked for the Financial Ombudsman Service and been a member of HSBC's UK executive team. All members of the Committee are considered to have competence relevant to the sector in which the Company operates.

Representatives from the external auditor and internal auditor also attended all or part of the Committee's meetings. Members of the Committee also met separately with representatives of the external auditor and internal auditor without management being present. The Company Secretary is Secretary to the Audit Committee. From time to time, business unit representatives are invited to give presentations to the Audit Committee on the management of key business risks that fall under their remit.

Main activities in the year

The key areas of Committee activity during the year included the following:

Financial reporting

- Reviewed the Interim and Preliminary results, draft Annual Integrated Report for the Company for the financial year ending 31 March 2018 and the associated going concern statements.
- Reviewed key issues and areas of judgement in relation to the financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, retirement benefit provision and derivative accounting), and the impact of new accounting standards adopted during the year.
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment.
- Assessed financial resilience by reviewing the Business Viability Statement and the supporting scenarios for stress testing.

External audit

- Considered reports by the external auditor on its audit and its review of the financial statements.
- Received the external auditor's report on the internal control environment.
- Reviewed the external audit strategy.

Internal audit

- Agreed the scope of the internal audit plan for 2019/20.
- Reviewed internal audit reports.

Other

- Considered material litigation.
- Considered update on control enhancement around core systems.
- Reviewed non-audit fee policy.
- Reviewed cyber security.

All business discussed by the Committee during the course of the year was reported to the Board.

Risk management and internal control

Detailed disclosure regarding the Company's approach to managing risk is included in the Strategic Report on pages 72 to 76, followed by details of the Company's principal risks and an assessment of the future viability of the business.

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

- Risks are managed using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks, to document the existing controls in place to manage these risks, to ensure mitigation plans are established and monitored, and to establish clear ownership of each of the risks.
- The top-tier risk register is regularly reviewed by the Board and the Management Board.
- The Audit Committee reviews and approves the internal auditor's risk-based internal audit programme each year, with regular meetings to assess progress and reprioritise audits if necessary, to review the internal auditor's recommendations and to monitor progress in implementing those recommendations.
- The external auditor reports annually on the findings of its review of the internal control environment to the Audit Committee.
- All control improvement recommendations are followed up by audits, the reports on which enable monitoring by the Audit Committee.
- Each member of the Management Board is required to review and self-certify the adequacy of the internal control for their area of the business on an annual basis. The results of this review are collated by the internal auditor and presented to the Audit Committee.

Whistleblowing programme

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

Employees are encouraged to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline or confidential email address, which is routed to the internal auditor. The internal auditor maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to an appropriate designated person for investigation.

Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by internal audit of each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released.

This policy and related procedures and any allegations made via the process are monitored by the Audit Committee.

Internal audit

The provision of internal audit services is outsourced to PricewaterhouseCoopers (PwC). PwC was appointed by the Company on 1 August 2016 for a four-year term following a competitive tendering process.

In March 2018, the Committee approved the internal audit plan for 2018/19, and the plan for 2019/20 was approved at its meeting in March 2019. In preparing the internal audit plan, PwC met with key personnel across the Group to obtain their views on the risks facing the Group. PwC then developed its plan based on the Group's organisational objectives, priorities and the risks that may prevent those objectives from being achieved. The plan is assessed on the basis of risk but also the nature of the review for particular areas that can be carried out on either an annual, rotational or value-enhancing basis.

During the year, the Committee received regular reports from the internal auditor, which set out its view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

Internal audits carried out during the year included PR19 governance, capital delivery, software licensing, operational resilience, HR systems implementation, gender pay and diversity reporting, cyber security and the Common Terms Agreement.

The Audit Committee actively contributes to the development of the annual internal audit plan and regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected quality. The Chairman of the Audit Committee also has an annual call with the Independent Senior Relationship Partner at PwC (currently John Maitland). On this basis the Audit Committee considers the internal audit process to be effective.

Independence of external auditors

The effectiveness of the external audit process is principally measured by the quality and timeliness of the annual reporting to the Audit Committee. In addition, the Chairman of the Audit Committee meets annually with the Independent Senior Relationship Partner (currently Mark Mullins), independent of the external audit team, to discuss performance and effectiveness issues.

To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee will annually review the scope and value of all non-audit-related work conducted by Deloitte on behalf of the Company. Further information on non-audit services is detailed below. To ensure the auditor's independence is safeguarded, lead audit partners rotate every five years. The current lead audit partner is James Leigh. The Committee considers the relationship the Company has with Deloitte annually, and for the year ended 31 March 2019, the Committee was satisfied with the performance, objectivity and independence of Deloitte as the external auditor.

Non-audit services

A key factor that may impair the external auditor's independence is a lack of control over the volume and/or value of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Committee and must be robustly justified and, if appropriate, tendered before it is approved.

The fees paid to the external auditor during the year are set out in note 6 to the financial statements on page 160. The non-audit fees in the year to 31 March 2019 were £0.6 million and predominantly related to consultancy and assurance services connected with the development of the AMP7 strategy for asset management and operational activities as well as providing assurance services on the PR19 submission. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors. The Company has a clear policy for all non-audit work conducted by the external auditor, and the Committee is confident that all such non-audit work carried out by the external auditor during the financial year complied with this policy.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 109. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 27 March 2019. No material shortcomings in the operation of the Committee were highlighted.

Annual integrated report

The Audit Committee considers the Annual Integrated Report, 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.

Significant issues in relation to the financial statements

The Audit Committee considers a range of significant issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management has to make in preparing the financial statements. As such, they are presented to the Audit Committee in the form of a report prepared by management called *Key Issues and Areas of Judgement Report*. Further details of these accounting judgements and estimates are set out in the key assumptions and significant judgement note (note 2) in the financial statements on page 158.

- **Measured income accrual – estimating unbilled household income:** the Committee reviewed the methodology and outcome of the estimate for measured income for the year ended 31 March 2019, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the end of the period and represents approximately 39 per cent of measured household revenue. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption, and the Company is required to disclose the accuracy of the accrual in its separate Annual Performance Report. The value of the measured income accrual is disclosed in note 17 of the financial statements.
- **Bad debt provision:** the Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience. Management calculates bad debt provision based on assumptions made on the forecast collectability, considering whether debtors are current customers, the age of the debt and whether a charging order has been secured. The Committee also considered the potential impact of Brexit and other macro-economic factors on the bad debt charge. Further information can be found in notes 2(b) and 17 of the financial statements.
- **Retirement benefit obligations:** the Group operates a defined benefit pension scheme, which was closed to future accrual on 31 March 2018. The Committee reviews the key assumptions that underpin the actuarial valuation of the scheme in accordance with IAS 19 'Employee benefits'. Further information can be found in note 2(b) of the financial statements.
- **Derivative accounting:** as at 31 March 2019, the Group held a number of derivatives, and the Committee considered the accounting policy for derivative valuations, application of hedge accounting and credit risk adjustments. Further information can be found in note 21 of the financial statements.
- **Classification of costs between operating and capital expenditure:** the Committee considered the policy for classifying operating and capital expenditure, and the basis on which overheads are capitalised. Further information can be found in notes 1(k) and 2(a) of the financial statements.
- **Depreciation of property, plant and equipment:** the Committee considered the range of asset lives applied when calculating the depreciation charge. Further information can be found in note 2(a) of the financial statements.
- **Recognition of grants and contributions:** the Committee considered the rationale for recognising the income from grants and contributions as revenue when new properties are connected to the network. More information can found in note 2(a) of the financial statements.
- **De-recognition of income:** the Committee considered the rules under IFRS 15 for only recognising income if it is probable that the entity will collect the consideration in exchange for the services provided. More information is given in note 2(a) of the financial statements.
- **New accounting standards:** the Committee considered the financial impact of three new accounting standards: IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and 15 came into effect on 1 April 2018 and IFRS 16 came into effect on 1 April 2019. Further information can be found in notes 1(v) and 31 of the financial statements.

This report was approved by the Board of Directors on 29 May 2019.

John Hirst
Chairman of the Audit Committee
29 May 2019

NOMINATION COMMITTEE REPORT

Chairman
Stephen Billingham

Other members
James Bryce
Polly Courtice
John Hirst
Manoj Mehta*
Niall Mills
Paul Whittaker
Zarin Patel

Meetings
Five

Meetings also regularly attended by:
Peter Simpson, Chief Executive Officer; Susannah Clements, Group Director of People and Change; and Claire Russell, Company Secretary.

Composition of the Committee
*Manoj Mehta is an investor-appointed member of the Nomination Committee but is not a member of the Board. Meetings are usually attended by either Manoj Mehta or by his alternate on the AWG Board, Duncan Symonds.

Directors' biographies are available on pages 100 to 102.

Available to view on the Company's website (www.anglianwater.co.uk):
Nomination Committee's terms of reference
Diversity & Inclusion Policy

Role of the committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors.

The duties of the Nomination Committee include:

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

Only members of the Committee have the right to attend Committee meetings.

Main activities in the year

Appointment of a new Chief Financial Officer

During the year, Scott Longhurst, Managing Director, Finance and Non-Regulated Business (Chief Financial Officer) notified the Board that he intended to retire from the Company during the financial year ended 31 March 2020. The Committee led the search and selection process for the new Chief Financial Officer with the support of Korn Ferry (a global executive recruitment firm that was appointed following a competitive tendering process and that does not have any other connection with the Company). Prior to commencing the search, the Committee agreed the key skills and experience required by any individual appointed to the role. In January 2019, the Committee recommended to the Board that Steve Buck be appointed as Chief Financial Officer to replace Scott Longhurst. This followed a thorough and detailed process that included overview by the Committee of both a long list and a short list of potential candidates as well as conducting interviews with potential candidates. Steve Buck will be joining the Company in May 2019.

Non-Executive Director appointments

In March 2018, the Company announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. As part of this, the Company committed to change the composition of the Board so that Independent Non-Executive Directors were in the majority, not just the largest group. As a consequence there was a requirement for the Company to appoint an additional Independent Non-Executive Director. Prior to commencing the search, the Committee reviewed the expertise of the incumbent Independent Non-Executive Directors and also detailed the essential and desirable characteristics of a potential new appointment.

A thorough search and selection process was conducted and reviewed by Warren Partners (an executive search firm that does not have any other connection with the Company and which was appointed following a competitive tendering process). The Committee considered and interviewed a number of potential candidates and recommended to the Board that it should appoint Zarin Patel as an Independent Non-Executive Director, with effect from 31 October 2018.

On 13 October 2019, the second three-year term of appointment in respect of Paul Whittaker will expire. At its meeting in March 2019, the Committee, after careful consideration, recommended to the Board that Mr Whittaker be appointed for a further three-year term expiring on 13 October 2022.

Diversity and inclusion

The Committee agreed a Company-wide diversity policy and Diversity Action Plan in 2014. During the 2017/18 financial year the Company broadened the scope of its ambitions to focus on inclusion as well as diversity and created its Diversity & Inclusion Action Plan. This action plan contains a range of actions and targets around the areas of inclusion, gender, ethnicity, disability and age. As part of the 2025 People Strategy, the Company has refreshed its targets in this area, as detailed below:

- our employees are as diverse as our customers
- we understand our race pay gap and are working to reduce it
- we have no gender pay gap
- we have more diversity in our leadership groups
- we have fair reward policies
- we are good at hiring people who think differently
- people are accepted for who they are and can contribute to the full
- Anglian Water has a reputation for fairness.

At its meeting in March 2019, the Committee reviewed the progress in brief against our strategy and plan but agreed to consider the matter in greater depth at a meeting in May 2019. During the financial year, the Company joined the Energy & Utilities Skills Inclusion Commitment and Principles, maintained its percentage of female employees at more than 30 per cent, hired more employees from BAME (black, Asian and minority ethnic) backgrounds and launched the Future Leaders Board. In order to improve diversity and inclusion, the Company continues to take a number of actions, including increasing engagement with schools, sponsoring LGBT+ events, continuing to use social media and working with the Armed Forces Covenant Employer Recognition Scheme. The Company works hard to achieve a genuine diversity of employees and continues to focus its efforts accordingly.

At Board level, the Committee has not set a specific female Board member quota. The Company is similarly committed to appointing the best available person to any role within the Company regardless of gender. Further information on gender diversity can be found on page 48.

Succession planning

The Committee also keeps under review the development, succession planning and talent pool for the Management Board and other senior roles to identify both talent strengths and gaps. As part of its commitment to developing its senior managers, the Company continued to work during the year in collaboration with Lane 4 Management Group Limited and Loughborough University Business School to deliver the Transforming Our Leadership (TOL) programme. The TOL programme has been designed to develop the skills and behaviours necessary to effectively deliver results and drive change.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the external Board evaluation process, as detailed on page 109. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 27 March 2019. No material shortcomings in the operation of the Committee were highlighted.

All business discussed by the Committee during the course of the year was reported to the Board.

This report was approved by the Board of Directors on 29 May 2019.

Stephen Billingham
Chairman of the Nomination Committee
29 May 2019

REMUNERATION COMMITTEE REPORT

Chairman
Paul Whittaker

Other members
Stephen Billingham
James Bryce
Natalie Ceeney
Dame Polly Courtice
John Hirst
Manoj Mehta*
Niall Mills

Meetings
Six

Meetings also regularly attended by:
Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Susannah Clements, Group Director of People and Change; and Claire Russell, Company Secretary.

Composition of the Committee
*Manoj Mehta is an investor-appointed member of the Remuneration Committee but is not a member of the Board. Meetings are usually attended by either Manoj Mehta or his alternate on the AWG board, Duncan Symonds.

Steve Good left partway through the year and was replaced by Natalie Ceeney.

Directors' biographies are available on pages 100 to 102.

Available to view on the Company's website (www.anglianwater.co.uk):
Remuneration Committee terms of reference
Independent Non-Executive Directors' letters of appointment

Chairman's statement

I am pleased to present the report on Directors' remuneration, which sets out the remuneration policy for Anglian Water Services Limited (AWS), how it was applied in the financial year ended 31 March 2019 and the policy for 2019/20.

Company performance in 2018/19

This is the fourth year of AMP6, which began with customers benefiting from the greatest reduction in bills of all water and sewerage companies as a result of efficiencies made during AMP5. This has been coupled with a Business Plan focused on what customers said was important to them, including customer service and delivery, reducing interruptions to the water supply and reducing leakage.

2018/19 has been a year of strong performance. Almost all Outcome Delivery Incentives (ODIs) have met their base targets for the year, with seven achieving maximum as a result of exceptionally strong performance against targets that deliver for customers as well as the business. Performance in major ODIs such as Service Incentive Mechanism (SIM) and Interruptions to Supply as well as Internal and External Flooding have shown strong improvements against the previous AMP.

As well as avoiding significant 'in year' penalties, rewards were delivered against those ODIs that were measured in the period. Stretch performance was also achieved in the year against a number of important ODIs such as SIM, which measures our delivery to customers, and Interruptions to Supply, where rewards are calculated over a longer period. For SIM, the strong performance has ensured a first-place finish in Ofwat's qualitative survey for 2018/19.

This success has been achieved in the wake of a challenging AMP6 determination requiring a step change in performance to meet higher customer expectations, new ODI and SIM targets and complex regulatory outputs, while absorbing unfunded cost pressures.

Remuneration outcomes in 2018/19

At the start of the year, the Board set targets that focused management on driving improvements across the ODIs, efficiency and ensuring financial returns.

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on the key financial metrics, just below stretch on Totex Delivery Index (TDI) and between base and stretch target on ODIs.

As a result of this performance, and personal performance of each individual Executive Director, annual bonus payments for 2018/19 were between 84.7 per cent and 91.9 per cent of maximum.

On 31 March 2019, the performance period ended for long-term incentive awards granted in 2016. These awards were based on performance from 1 April 2016 to 31 March 2019 against two performance conditions, which were achievement of targeted average rate of return and achievement of targeted savings against totex allowed in the Final Determination over the performance period. The Committee determined that the Company had achieved the stretch target on both of the measures. As a result of this performance, the percentage of award vesting is 100 per cent.

Other key decisions

The Committee carried out a full review of executive incentive design in advance of the year beginning April 2019.

As part of this review, the Committee determined that in general the overall remuneration policy operated as intended to drive Company performance for AMP6. However, the previous policy may not be the most appropriate for the new regulatory period. The Committee agreed that there would be changes to the current short- and long-term incentive design to ensure greater alignment between executive remuneration and customer outcomes. From the 2019/20 performance year, the annual bonus and Long-Term Incentive Plan (LTIP) will cease to exist and instead be replaced with a new Deferred Bonus Scheme. This scheme will only pay out should the Company achieve stretching performance standards against a range of measures that customers have indicated are important, with no reward directly linked to securing shareholder returns.

The Deferred Bonus Scheme will be implemented in 2019/20, with the measures changing for the scheme in 2020/21 as we transition across regulatory cycles. At the start of the 2019/20 performance year, the Company does not have clear visibility of the stretching targets Ofwat is to set past the current performance year. As a consequence, for year one of the new Deferred Bonus Scheme the performance contract currently used for the annual bonus will be measured. From 2020/21 the Deferred Bonus Scheme will have three sets of measures:

Customer Satisfaction: such as C-MeX, D-MeX and R-MeX.

Customer Delivery: a small number of ODIs representing the most important customer priorities as determined by our customers.

Customer Efficiency: a measure of financial efficiency shared with customers, to be set following the Final Determination.

At the end of the performance year, achievement will be calculated and half of the reward earned will be paid out.

The remaining half will be deferred and paid out in two tranches – two years and three years after the first payment and therefore three and four years after the performance period began. In addition to the initial performance criteria, these payments will also be dependent on a number of serviceability measures being sustained over the period of the scheme.

This review was supported by external remuneration consultants and took into account market practice in the water sector and in the broader listed environment.

Changes to the Board

Natalie Ceeney was appointed as an Independent Non-Executive Director on 14 May 2018 and Steve Good stepped down as an Independent Non-Executive Director on 31 October 2018 and was replaced by Zarin Patel. Chris Newsome and Jean Spencer stepped down as Executive Directors on 11 August 2018.

Scott Longhurst will step down as an Executive Director of the Company during the current financial year, at a date to be determined. He will continue to be employed by the Anglian Water Group throughout the 2019/20 financial year. Steve Buck will be appointed as Chief Financial Officer Designate on 31 May 2019 and will be formally appointed to the Board following a thorough induction and handover later in the year. Peter Simpson will take on direct responsibility for the non-regulated businesses for which previously Scott Longhurst was accountable.

All relevant remuneration information for leaving and joining Directors is included later in this report.

Paul Whittaker
Chairman of the Remuneration Committee
29 May 2019

AT A GLANCE

Remuneration principles

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively and to promote the success of the Company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets.

The overall aim is that Executive Directors' remuneration should be market-competitive relative to other comparable companies, with a significant proportion being performance-related and therefore only paid out if stretching short-term and long-term targets are achieved.

This diagram denotes the Anglian Water outcomes for our customers and the environment. The Executive Directors' annual bonus, and therefore overall in-year remuneration, is directly linked to the achievement of these outcomes through the ODI measure. More detail is provided in table 9 on page 127.

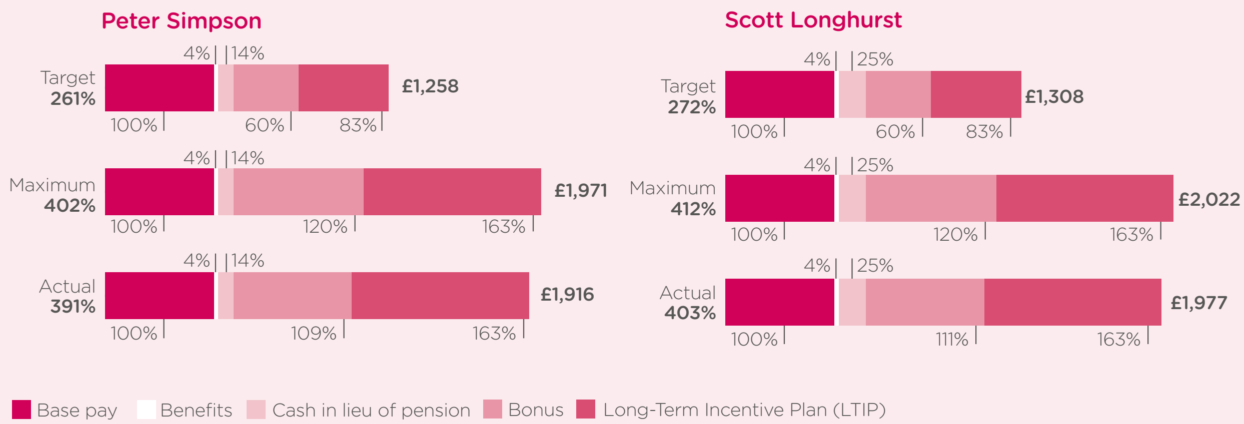
Consideration of shareholder views

Non-Executive Directors representing the ultimate owners of the Company sit alongside Independent Non-Executive Directors (who form the majority of the Committee) on the Committee and are involved in monitoring the performance of the Executive Directors and deciding on remuneration levels, payments and changes to reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions and that the link between pay and performance is robustly managed.

Breakdown of executive remuneration over the year

Graph 1 on the following page shows the proportion of payments related to variable and long-term performance for 2018/19. The designs of the long-term incentive arrangement and the annual bonus include a range of minimum and maximum levels of performance that would qualify for a sliding scale of payments, rather than base or target performance levels. The graph therefore shows the percentage of base salary which could be earned for minimum and maximum performance levels, as well as the actual outcome for 2018/19. Leavers during the year have been excluded from the graph.

Graph 1



Note: The target remuneration includes the relevant percentage for each Executive of their 2016 LTIP base award. The maximum remuneration for the LTIP calculation includes the uplift for the actual average rate of return (ARR) across the performance period. This figure was not known at the start of the performance period but was deemed to be the most appropriate to use to demonstrate actual remuneration against maximum remuneration. Chris Newsome and Jean Spencer have not been included in this graph as they left part way through the year and bonus potential will be pro-rated.

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for AWS for the year that ended 31 March 2019 and any changes for the year ending 31 March 2020.

Table 1

Element and link to strategy	Operation and performance metrics	Maximum potential for 2018/19	Changes for 2019/20
Base salary To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.	Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by: - role, experience and performance - average change in broader workforce salary - total organisational salary budgets. Salaries are benchmarked against the FTSE 250 and other comparable utility companies.	Annual increases will not exceed the general level of increases for the Company's employees except where an individual changes roles or where benchmarking indicates that an individual's salary requires realignment to remain competitive.	No changes are proposed.
Benefits To increase the economic security of employees and to recruit and retain employees.	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	Peter Simpson: 4% of base salary Scott Longhurst: 3.9% of base salary Chris Newsome: 8.9% of base salary Jean Spencer: 5.2% of base salary	No changes are proposed.

Element and link to strategy	Operation and performance metrics	Maximum potential for 2018/19	Changes for 2019/20
Annual bonus To reward achievement of annual financial and strategic business targets and delivery of personal objectives.	Payment determined by the Committee following the year end. Company targets set and reviewed annually and comprise a basket of financial and non-financial metrics, plus personal objectives. Awards for 2018/19 are based 70% on Company performance and 30% on personal objectives. Personal objectives relate to areas of the business over which the individual has influence. The Committee has the discretion to reduce bonus payouts in the event of material issues in relation to service, health and safety, quality, reputation and financial or regulatory performance.	Peter Simpson and Scott Longhurst Maximum: 120% of base salary Target: 60% of base salary Chris Newsome and Jean Spencer Maximum: 75% of base salary Target: 45% of base salary	The Deferred Bonus Scheme will be implemented in 2019/20, with the measures changing between 2019/20 and 2020/21 as we transition across regulatory cycles. At the start of the 2019/20 performance year, the Company does not have clear visibility of the stretching targets the regulator will set for the next AMP. As a consequence, for year one of the new Deferred Bonus Scheme the performance contract currently used for the annual bonus will be measured. From 2020/21 the Deferred Bonus Scheme will have three sets of measures: **Customer Satisfaction:** such as C-MeX, D-MeX and R-MeX. **Customer Delivery:** a small number of ODIs representing the most important customer priorities as determined by our customers. **Customer Efficiency:** a measure of financial efficiency shared with customers, to be set following the Final Determination. The measures will be directly linked to the 2020–2025 outcomes that are agreed following our Business Plan submission and the Final Determination. At the end of the year for which the bonus has been set, achievement will be calculated and half of the reward earned will be paid out. The remaining half will be paid out in two tranches – two years and three years after the first payment and therefore three and four years after the performance period begins. These payments will be dependent on the Company's key serviceability measures being achieved over the three- and four-year period, to ensure that performance is sustained in the long term. The Committee will apply a series of tests to ensure that there are material deductions to any award in the event of a deterioration in environmental, health and safety record or reputation but retain full discretion to look at overall performance, with the ability to reduce any award (including to nil) in the event of short-term focus at the expense of long-term customer needs. Comprehensive malus and clawback provisions will also be built into the scheme rules to ensure that Executives are held to the highest standards of behaviour.

Element and link to strategy	Operation and performance metrics	Maximum potential for 2018/19	Changes for 2019/20
Long-Term Incentive Plan (LTIP) To incentivise directors to deliver sustained long-term performance.	Long-term incentive awards are granted each June and are paid at the end of the performance period, subject to the achievement of performance conditions. Structure, eligibility and quantum of awards are reviewed annually to ensure continued alignment to strategy.	Peter Simpson and Scott Longhurst: Opportunity: 150% of base salary Chris Newsome and Jean Spencer: Opportunity: 75% of base salary	To be replaced by the Deferred Bonus Scheme.
Pension To attract and retain high-calibre individuals by providing good-quality pension arrangements.	AWS operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of Company contribution to pension may be made.	Peter Simpson receives a contribution of 12.8% of base salary up to a cap of £138,885 and a cash payment of 15% of base salary above this cap. A contractual commitment to deliver 25% of salary in respect of Company contributions to pensions for Scott Longhurst, Chris Newsome and Jean Spencer is delivered through a cash payment.	No change.

Policy on recruitment remuneration

The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this report. The Committee also recognises that where it is in the interests of the Company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances.

In making any decision on the remuneration package for a new recruit, the Committee would seek to balance Company interests with the requirements of the new recruit and would strive not to pay more than is necessary to achieve the recruitment.

Table 2

Element	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new Executive Director's ongoing package will be consistent with our remuneration policy as set out in this report.
Replacement awards	The Committee will seek to structure any replacement awards in whole or in part such that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited and will be subject to clawback in the event of any early exit. In determining quantum and structure of these commitments, the Committee will require reasonable evidence of the nature and value of any forfeited award.
Sign-on payments/ recruitment awards	Our policy is not to provide sign-on compensation. However, in exceptional circumstances, the Committee may make a sign-on payment to an individual, payment of which will be subject to performance conditions and/or a holding period and good and bad leaver provisions. The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the Company. In circumstances where payment is appropriate, in the majority of cases the maximum compensation would be no greater than 100% of salary.
Relocation policies	Where an individual is relocating to take up the role, the Company may provide one-off benefits such as reasonable relocation expenses.

Table 3: Policy on payment for loss of office

Component	Policy on exit
General	No Executive Director has any contractual right to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance will not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors including the Executive Director's obligation to mitigate their own loss.
Base salary, pension and benefits	Salary, pension and benefits will be paid over the notice period. The Committee has discretion to make a payment of salary in lieu of notice.
Annual incentive	Executive Directors have no entitlement to an annual bonus in respect of the financial year in which the termination occurs. The Committee will consider whether the Director should be eligible for an annual bonus, based on individual and Company performance; any payment will normally be reduced to reflect the Director's actual period of service in that financial year.
Long-Term Incentive Plan (LTIP)	Rights to any outstanding awards under LTIPs would be dealt with by the Committee in accordance with the rules of the relevant scheme. Under these rules, an award is only automatically preserved in cases of death, incapacity or redundancy within the meaning of the Employment Rights Act 1996. In all other circumstances, the Committee has absolute discretion to determine whether an award is preserved and, if so, the basis on which any payment is made. Where the Committee chooses to preserve an award, any payment is normally pro-rated to reflect how much of the performance period the individual has worked. Further reductions might also be applied if appropriate.

Service contracts

All Executive Directors appointed to the Board are currently employed on service contracts of no fixed term, with a notice period of 12 months by the Company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in the policy. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Committee. Currently, each Executive Director participates in the annual bonus scheme and LTIP, which are described further in the relevant sections of this report.

Table 4 shows the start date for each Executive Director and the end dates for Chris Newsome and Jean Spencer.

Table 4

	Start date as Executive Director	End date as Executive Director
Peter Simpson	18 November 2004	n/a
Scott Longhurst	18 November 2004	n/a
Chris Newsome	24 September 2004	11 August 2018
Jean Spencer	20 May 2004	11 August 2018

Note: Chris Newsome and Jean Spencer continued in their senior management roles until the end of September.

At 31 March 2019, James Bryce, Niall Mills and Duncan Symonds represent the ultimate owners of the Company. Consequently they do not have letters of appointment or service contracts, nor do they receive a fee from the Company for their services. Details of the letters of appointment in respect of the Chairman and Independent Non-Executive Directors are detailed in Table 5 on page 124.

External appointments

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with their non-executive appointment.

For the year ended 31 March 2019, Scott Longhurst was a Non-Executive Director of Infinis Energy Management Limited. His remuneration for this year was £50,000. Scott Longhurst resigned as a Director of Candover Investments plc with effect from 19 April 2018, and received £16,667 in remuneration in the year up until this date.

Consideration of employment conditions elsewhere in the Company

In setting remuneration policy, the Committee ensures that the remuneration arrangements for the Executive Directors are appropriate when compared with those for other senior executives and the wider workforce. In particular, the Committee is kept informed on a regular basis of:

- the level of salary increase for the general employee population
- Company-wide benefit provision and any proposed changes
- overall spend on management bonus arrangements.

The Committee made the decision to disclose the CEO remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent of employees across the AWG Group. This early disclosure is in line with the requirements made of listed companies as part of The Companies (Miscellaneous Reporting) Regulations 2018 and the standard that the Committee wished to adopt.

The details can be found in Table 21 on page 137.

Employee consultation

While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels and takes these into account when reviewing executive pay.

In March 2019, the Board adopted a new corporate governance code (the 2019 Code), which combines Ofwat's BLTG Principles and most of the provisions contained in the 2018 UK Corporate Governance Code that applies to listed companies.

The 2019 Code specifies that engagement with the workforce must be undertaken by means of one or a combination of the following: a Director appointed from the workforce; a formal workforce advisory panel; or a designated Non-Executive Director. The Board has therefore agreed to appoint a designated Non-Executive Director who will be responsible for engagement with the workforce. The Board will shortly make an appropriate appointment in relation to this role, and we will then agree an engagement plan with the appointed Director. The results of this engagement will be reported in our 2020 Annual Integrated Report.

Chairman and Independent Non-Executive Directors

Terms of appointment

The Chairman and the Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of these letters of appointment can be found at www.anglianwater.co.uk/governance.

Dates of letters of appointment and expiry of current terms for those who have served as Chairman and other Independent Non-Executive Directors during the year are shown in Table 5.

Table 5

	Date of first appointment	Date of expiry of current terms
Stephen Billingham	26 November 2014	31 March 2021
Natalie Ceeney	14 May 2018	13 May 2021
Polly Courtice	1 April 2015	31 March 2021
John Hirst	1 April 2015	31 March 2021
Zarin Patel	31 October 2018	30 October 2021
Paul Whittaker	14 October 2013	13 October 2022

These appointments may be terminated with six months' notice by either party. No compensation is payable to the Chairman or Non-Executive Directors if the appointment is terminated early.

Steve Good stepped down as a Non-Executive Director on 31 October 2018.

Policy for determination of fees

The fees for Non-Executive Directors are reviewed by the Chairman, and any changes are approved by the Board. Under the Articles of Association of the Company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the Company. Non-Executive Directors do not vote on their own remuneration.

The Chairman's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chairman is not involved in setting his own remuneration.

Table 6: Fee policy

Element and link to strategy	Operation	Maximum potential for 2018/19	Changes for 2019/20
Fees To attract high-calibre individuals to these roles and reflect the level of responsibility and time commitment involved.	For the Chairman and Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size. Fees may include additional payments to Non-Executive Directors who act as Senior Independent Non-Executive Director or chair Board committees, to reflect the significant additional responsibilities attached to these duties. The Chairman and the Non-Executive Directors do not participate in any of the Company's incentive or pension schemes.	n/a	No change.
Benefits	The Company covers the cost of travel between the Directors' home and office when carrying out duties. This includes payment of any tax due. Normal place of work is deemed to be the Company's head office in Huntingdon. Travel to any other location is reimbursed as normal business travel expenses.	n/a	

60 per cent of the Chairman's costs are charged to the Company. 100 per cent of the Non-Executive Directors' costs are charged to the Company.

Annual Report on Remuneration

Table 7: Single total remuneration figure (audited)

	Total paid by AWG companies (£)											
	Base pay		Taxable benefits[1]		Pension including cash in lieu[2]		Annual bonus[3]		LTIP[4]		Total	
	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**
Peter Simpson[5]	490,560	490,560	19,450	19,502	75,316	70,445	554,882	533,729	780,433	801,576	1,920,642	1,915,812
Scott Longhurst[6]	490,560	490,560	19,148	19,009	129,507	122,640	549,898	543,326	776,972	801,576	1,966,085	1,977,111
Chris Newsome	274,891	100,166	23,192	8,475	69,115	23,849	182,737	65,524	211,790	224,586	761,725	422,600
Jean Spencer	247,185	90,070	18,836	5,543	65,257	22,518	172,535	61,241	199,967	201,950	703,781	381,322
Total Executive Directors	**1,503,196**	**1,171,356**	**80,626**	**52,528**	**339,195**	**239,452**	**1,460,053**	**1,203,820**	**1,969,162**	**2,029,688**	**5,352,232**	**4,696,845**

All figures for Chris Newsome and Jean Spencer are apportioned for the year up to 11 August 2018, the date that they stepped down from the board, apart from the LTIP payment, which reflects the entire three-year vesting period.

1 Benefits include private health insurance, car allowance, private fuel and life assurance.

2 Pension costs represent cash payments in lieu of contractual commitments as no Executive Directors currently save into the pension scheme.

3 Annual bonus payments include payments made under the loyalty savings scheme, which is open to all employees.

4 This long-term incentive payment relates to the 2015 and 2016 awards for the three-year performance period ending in March 2018 and 2019 respectively. Both include the uplift of the base award by the ARR delivered over the performance period, which is a feature of the scheme designs.

5 For Peter Simpson, 36 per cent of long-term incentive costs and 70 per cent of basic salary, benefits, pension and bonus costs are paid by Anglian Water Services, with the remaining proportion being paid by other parts of the AWG Group.

6 For Scott Longhurst, 100 per cent of long-term incentives are paid for by the AWG Group. 60 per cent of basic salary, benefits, pension and bonus costs are paid by Anglian Water Services, with the remaining proportion being paid by other parts of the AWG Group.

Base pay

When assessing the pay awards for each of the Executive Directors and senior managers, the Committee considers the remuneration increases for employees throughout the Group. As disclosed in the 2017/18 report, the Board agreed that there would be no base pay increase for Executive Directors from April 2018.

Table 8

	Base pay for Executive Directors effective 1 April 2018 (£)
Peter Simpson	490,560
Scott Longhurst	490,560
Chris Newsome	274,891
Jean Spencer	247,185

Annual bonus

The annual bonus is designed to incentivise performance against a number of financial and non-financial Company measures, including personal objectives for each Executive Director. At the start of the year, the Committee chooses measures to reflect the key priorities of the business and sets base, stretch and, where appropriate, threshold targets for each measure. The Committee has discretion to amend Company and personal objectives during the year. At year end, when assessing performance against Company and personal objectives, the Committee considers any other results or factors it deems relevant and applies its overall judgement in recommending final bonus outcomes to the Board. In doing so, the Committee also has discretion to adjust payment downwards for material issues on service, quality, health and safety, reputation, and financial or regulatory performance even when the Executive Director has achieved their personal objectives. The Committee may also, at its discretion, claw back annual bonus already paid where, in its judgement, there has been serious misconduct.

To keep the bonus design simple, the performance on the ODI outcomes is measured through an overall ODI scorecard. Within the scorecard, each outcome has a maximum number of points, which reflect the size of the associated financial reward or penalty.

The Committee implemented changes in 2018/19 to give a greater alignment between executive remuneration and the service provided to customers, which is measured through the non-financial measures and in particular the ODIs. Financial measures were 35 per cent (with both the earnings before interest, tax, depreciation and amortisation [EBITDA] and cash flow measures comprising 17.5 per cent each), with 65 per cent weighted towards the non-financial measures – where 35 per cent was allocated to the outcomes of the ODI measure and 30 per cent to the Totex Delivery Index (TDI), a measure of efficient delivery of our investment programme, which reflects the move to totex-based regulation from 2015.

The ODI scorecard comprises targets for:

- the Service Incentive Mechanism (SIM) (explained below)
- reduction in total number of minutes customers' water supplies are interrupted
- reducing water lost through leakage
- reducing pollution incidents
- increasing the number of bathing waters in our region classed as excellent
- reducing the number of properties affected by low water pressure
- reducing the number of properties flooded internally and externally from sewers
- reducing the number of contacts from customers about drinking water quality and acceptability (including appearance, taste and odour)
- customer perceptions of affordability, fair bills and value for money
- improving water efficiency (per property consumption).

The SIM has two parts: a qualitative part based on surveys of customer satisfaction and a quantitative part (the number of customer complaints and the level of customer contacts that indicate poor service, such as written complaints and telephone calls classed as unnecessary). Ofwat conducts customer satisfaction surveys and publishes the relative scores of all water and sewerage companies in England and Wales for both qualitative and quantitative measures. The Company's annual bonus targets have been set based on these relative scores. Consistent with the way Ofwat now weights the qualitative and quantitative part of the measure, 75 per cent of this bonus element is based on the qualitative part of the measure and 25 per cent on the quantitative.

Outcomes for 2018/19

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on the financial measures, just below stretch on TDI and between base and stretch on ODIs.

Table 9 shows the scoring mechanism and the ODI outcomes for 2018/19, detailing the Company performance for each ODI measure.

Table 9

	Threshold	Base	Stretch	Outcome
SIM position (position among water and sewerage companies)	5th	4th		1st
Interruptions to supply (minutes)	–	12		8 m 44 s
Leakage (megalitres per day)	–	179		186
Pollution incidents (number of Category 3 incidents)	298	219		185
Bathing waters (number of bathing waters rated excellent)	–	33		32
Flooding internal (number of properties)	–	448		342
Water quality complaints (number of complaints per 1,000 customers)	–	1.23		1.18
Affordability (% improvement in CCWater tracker survey)	–	2%		2%
Fair bills (% improvement in CCWater tracker survey)	–	2%		2%
Flooding external (number of properties)	–	6,159		4,148
Low pressure (number of properties at risk of persistent low pressure)	–	313		287
Drinking water quality (% Mean Zonal Compliance)	–	99.95		99.95
Per property consumption (litres per property/household per day)	–	308		323
Value for money (% improvement in CCWater tracker survey)	–	2%		1%

Note: As the results for the fair bills, affordability and value for money ODIs were not known at the time of the Committee decision, they have been counted as zero for the purposes of the bonus scheme and will be trued up next year if rewards are earned against them.

Overall, financial performance was good for the year. Specific management focus was placed around cost control to deliver efficiencies in line with the plan and help mitigate the higher costs associated with the hot, dry summer. Cash performance in the business was ahead of stretch, reflecting a strong year on revenue cash collection.

In terms of the non-financial measures, overall the performance in the year was above stretch against key ODIs such as SIM and Interruptions to Supply and, as a consequence, the Company has achieved between base and stretch targets against the total scorecard. The outcomes reflect improvements in pollutions and both internal and external floodings, and we have avoided much larger potential penalties by taking action to maintain asset serviceability, reduce pollutions and improve and maintain key ODIs.

In the case of our strong customer service performance, as measured via the SIM, the Company achieved first position in Ofwat's qualitative survey for the 2018/19 financial year.

For totex this was a successful year, achieving the challenging stretch financial outperformance while performing between base and stretch against the effective delivery of projects.

The Committee recommended to the Board that the extent to which overall Company performance targets had been achieved was 86.5 per cent for all of the Executive Directors.

As a result of this performance, and the Committee's review of the CEO's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2018/19 were between 84.7 per cent and 91.9 per cent of maximum.

Outcomes for Executive Directors (audited)

Table 10 details the relationship between each of these performance measures and how they relate to the bonuses achieved by each Executive Director in the 2018/19 performance year.

Table 10

	Weight for 2018/19 (as % of base pay)	Threshold	Base	Stretch	Outcome
Peter Simpson					
Financial measures	**29.4**				**29.4%**
Free cash flow	14.7				14.7%
EBITDA	14.7				14.7%
Non-financial measures	**54.6**				**43.3%**
Outcome Delivery Incentives (ODI)	29.4				19.4%
Totex Delivery Index (TDI)	25.2				23.9%
Personal objectives	**36**				**36.0%**
Total % base pay	**120**				**108.7%**
Base pay					£490,560
Bonus paid					£533,729
Scott Longhurst					
Financial measures	**25.2**				**25.2%**
Free cash flow	12.6				12.6%
EBITDA	12.6				12.6%
Non-financial measures	**46.8**				**37.1%**
Outcome Delivery Incentives (ODI)	25.2				16.6%
Totex Delivery Index (TDI)	21.6				20.4%
Non-regulated businesses' performance	**12**				**12.0%**
Personal objectives	**36**				**36.0%**
Total % base pay	**120**				**110.3%**
Base pay					£490,560
Bonus paid					£540,990

	Weight for 2018/19 (as % of base pay)	Threshold	Base	Stretch	Outcome
Chris Newsome					
Financial measures	**18.4**	●	●	●	**18.4%**
Free cash flow	9.2	●	●	●	9.2%
EBITDA	9.2	●	●	●	9.2%
Non-financial measures	**34.1**	●	●	●	**27.1%**
Outcome Delivery Incentives (ODI)	18.4	●	●	●	12.1%
Totex Delivery Index (TDI)	15.8	●	●	●	14.9%
Personal objectives	**22.5**	●	●	●	**18.0%**
Total % base pay	**75**				**63.4%**
Base pay					£100,165
Bonus paid					£63,515
Jean Spencer					
Financial measures	**18.4**	●	●	●	**18.4%**
Free cash flow	9.2	●	●	●	9.2%
EBITDA	9.2	●	●	●	9.2%
Non-financial measures	**34.1**	●	●	●	**27.1%**
Outcome Delivery Incentives (ODI)	18.4	●	●	●	12.1%
Totex delivery index (TDI)	15.8	●	●	●	14.9%
Personal objectives	**22.5**	●	●	●	**21.5%**
Total % base pay	**75**				**67.0%**
Base pay					£90,070
Bonus paid					£60,268

Notes: Given that results were not known for three ODIs at the time of the Committee decision, there may be further payments made to the Executive Directors as a result of this true-up in 2020. Base pay and bonus payments for Chris Newsome and Jean Spencer are based on earnings up to 11 August 2018, the date that they stepped down from the Board.

Outcomes for Executive Directors (audited)

LTIP

The LTIP is designed to reward and incentivise senior executives who can influence the long-term performance of the Company and deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees are granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a specific performance period. LTIP awards are granted each year in June.

In order to align the interests of executives with those of shareholders, the payment is uplifted by the average annual rate of return over the performance period.

Outcomes in 2018/19

The 2016 LTIP award vested in May 2019. Table 11 shows the performance measures and weightings for the awards made in 2016. The performance period ran from 1 April 2016 to 31 March 2019.

Table 11

Performance measure		Weighting as % of base pay		Actual performance	
		Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer	Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Rate of return	Achievement of targeted average rate of return over the performance period	75%	37.5%	75%	37.5%
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the performance period	75%	37.5%	75%	37.5%

In making recommendations to the Board on the extent to which these performance conditions had been achieved, the Committee concluded that the Company had outperformed on both the rate of return measure and the achievement of totex efficiencies measures.

The Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 100 per cent. Under the design of the scheme, awards are uplifted by the average rate of return over the performance period. For the 2016 LTIP this was 11.33 per cent.

As part of the current LTIP rules, the Committee has discretion to withhold up to 30 per cent of the LTIP award for certain material issues. Having reviewed the Company's performance in detail, the Committee recommended that there had been no material performance issues over the three-year performance period warranting the use of this discretion.

Table 12: Payments to Executive Directors during 2018/19 and the value of unvested long-term incentives (audited)

	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2018 (£)	Base value of awards granted during the year (£)	Base value of awards held at 31 March 2019 (£)	Value of awards vesting on 31 March 2019 (£)
Peter Simpson[1]	2016 LTIP	1 April 2016 to 31 March 2019	Rate of return – 50% Totex outperformance – 50%	720,000	0	720,000	801,576
	2017 LTIP	1 April 2017 to 31 March 2020	tbc	735,840	0	735,840	0
	2018 LTIP	1 April 2018 to 31 March 2021	tbc		735,840		0
Scott Longhurst[2]	2016 LTIP	1 April 2016 to 31 March 2019	Rate of return – 50% Totex outperformance – 50%	720,000	0	720,000	801,576
	2017 LTIP	1 April 2017 to 31 March 2020	tbc	735,840	0	735,840	0
	2018 LTIP	1 April 2018 to 31 March 2021	tbc		735,840		0
Chris Newsome	2016 LTIP	1 April 2016 to 31 March 2019	Rate of return – 50% Totex outperformance – 50%	201,730	0	201,730	224,586
	2017 LTIP	1 April 2017 to 31 March 2020	tbc	130,900	0	130,900	0
	2018 LTIP	1 April 2018 to 31 March 2021	tbc		65,450		0

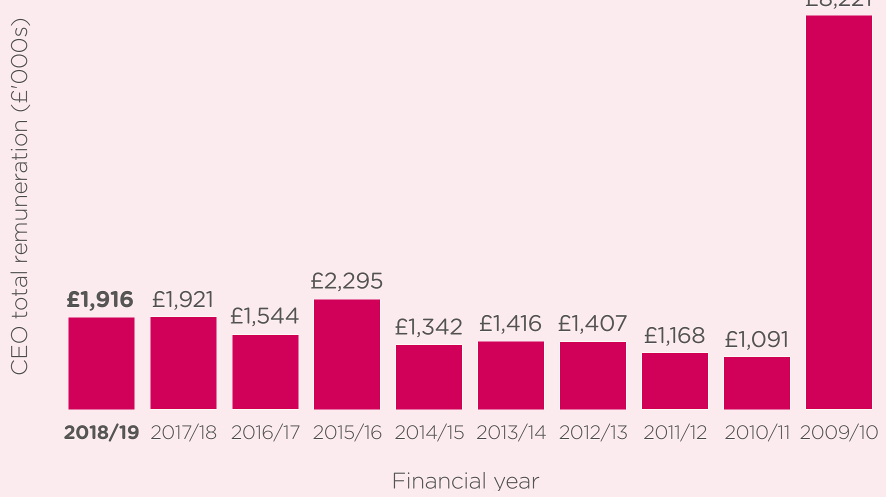
	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2018 (£)	Base value of awards granted during the year (£)	Base value of awards held at 31 March 2019 (£)	Value of awards vesting on 31 March 2019 (£)
Jean Spencer	2016 LTIP	1 April 2016 to 31 March 2019	Rate of return – 50% Totex outperformance – 50%	181,398	0	181,398	201,950
	2017 LTIP	1 April 2017 to 31 March 2020	tbc	123,592		123,592	0
	2018 LTIP	1 April 2018 to 31 March 2021	tbc		61,796		0

Jean Spencer and Chris Newsome will receive two thirds of their original 2017 LTIP and one third of the 2018 LTIP as per their leaving arrangements, as agreed by the Committee, and all figures are adjusted for this in this table.

1 The cost of Peter Simpson's LTIP awards is split between the Company and other parts of AWG as described in Table 7.

2 The cost of Scott Longhurst's LTIP awards is paid by other parts of AWG and is not charged to the Company.

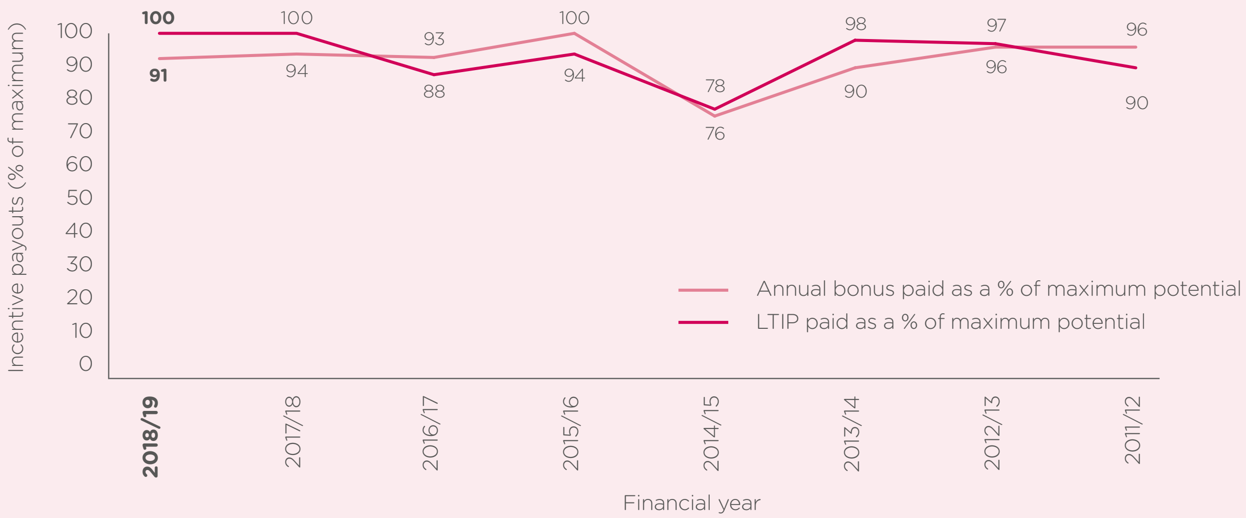
Graph 2: Change in CEO remuneration



Notes:

Jonson Cox stepped down as CEO of the Anglian Water Group of companies on 29 January 2010. From that date, Peter Simpson became Managing Director of Anglian Water Services (AWS). In addition to his role as Managing Director of AWS, Peter Simpson was appointed Group CEO in October 2013. Jonson Cox's LTIP payment in 2009/10 related to a long-term incentive award made under the AWG 2007 Executive Director Long-Term Incentive Plan and covered performance over a number of years.

Graph 3: Change in percentage of award of CEO annual bonus and long-term incentive



Remuneration arrangements for departing Executive Directors

The table below shows the remuneration arrangements for Jean Spencer and Chris Newsome. Chris Newsome left the Company on 1 December 2018 and Jean Spencer left on 31 March 2019.

Table 13

Remuneration element	Jean Spencer (£)	Chris Newsome (£)
Salary and benefits[1]	228,493	134,035
Payment in lieu of notice	160,962	355,548
2016 LTIP[2]	201,950	224,586

1 All salary, benefit and payments in lieu of notice were paid in line with contractual entitlements. Benefits included cash allowance in lieu of pension, car allowance and all other taxable benefits. Salary and benefits were paid up to 31 March 2019 for Jean Spencer and 1 December 2018 for Chris Newsome and reflect payments made post their resignation from the Board up until their termination date.

2 In line with the policy for good leavers, the Committee decided that both Jean Spencer and Chris Newsome were eligible for the full 2016 LTIP award, two thirds of the 2017 LTIP award and one third of the 2018 award.

As part of Chris Newsome's leaving arrangements, he agreed to provide ongoing consultancy services to Anglian Water Services for a short period. He received £50,100 for these services, which is reflected in the amounts above.

Scott Longhurst will be working his notice from September 2019 to March 2020. His bonus arrangements will be honoured for this period and, dependent on performance against objectives, he would be considered a good leaver for the purposes of the LTIP scheme, at the discretion of the Remuneration Committee. The Board will agree with Scott Longhurst in March 2020 whether to pay him the residue of his notice or whether he will remain employed.

Remuneration arrangements for incoming Chief Financial Officer

Steve Buck will be joining Anglian Water in May 2019. Table 14 shows the remuneration elements payable in 2019/20, all of which are in line with the remuneration policy detailed earlier in the report.

Table 14

Remuneration element	£
Base salary	395,000
Deferred bonus[1]	434,500
Pension contribution[2]	47,400
Company benefits[3]	14,000

1 In line with the scheme rules for the deferred bonus, Steve Buck will receive a maximum of 50 per cent of the percentage overall bonus in 2019/20, which is calculated on an overall maximum of 220 per cent of base salary.

2 The Company pension contribution will be a maximum of 12 per cent of base salary, or the cash equivalent, subject to tax and National Insurance, and is in line with the level of Company contributions for the wider workforce.

3 Company benefits include company car allowance and private healthcare. In line with policy, the figure here is indicative of what Steve Buck could receive at this stage.

Steve Buck will receive two short-term bonuses based on performance: a maximum of £150,000 payable in June 2020 and a maximum of £300,000 payable in June 2021, against specific performance objectives agreed by the Committee.

Relocation costs have been offered in line with the relocation policy as described in Table 2, to facilitate a move to a property similar to his previous main residence and to provide a short-term rental option to allow quick uptake of the role. Only actual costs incurred will be reimbursed.

AWG Co-investment Plan

The Co-investment Plan (the Plan) was established in March 2015 and was designed to operate annually throughout AMP6. Senior executives are able to make one annual investment out of net annual bonus and historic LTIP awards vested in the applicable year, to a maximum of £1 million over the period. Funds are locked in for the whole AMP, with Committee discretion to waive this condition in exceptional circumstances.

Sums invested are treated as a loan in respect of which interest is payable, calculated annually and added to the principal sum invested. The rate of interest is aligned to the total shareholder returns.

Under the rules of the Plan, one further investment (June 2019) is permissible as long as the total sum invested by an individual does not exceed £1 million. Table 15 illustrates the sums invested in the Plan to date.

Table 15

Investment year	Original investment (£)
Peter Simpson	
2015	417,000
2016	513,000
2017	70,000
2018	–
Cumulative	**1,000,000**
Scott Longhurst	
2015	428,000
2016	572,000
2017	–
2018	–
Cumulative	**1,000,000**
Chris Newsome	
2015	100,000
2016	100,000
2017	100,000
2018	–
Cumulative	**300,000**
Jean Spencer	
2015	50,000
2016	80,000
2017	150,000
2018	–
Cumulative	**280,000**

Table 16: Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration all AWG (£)			
		2018/19		2017/18
	Fees	Benefits[1]	Total	Total
Stephen Billingham[2]	300,000	639	300,639	301,108
Natalie Ceeney	44,203	219	44,422	n/a
Polly Courtice	50,000	103	50,103	45,000
Steve Good[3]	29,167	1,183	30,350	45,429
John Hirst	70,000	0	70,000	65,000
Zarin Patel	21,024	0	21,024	n/a
Paul Whittaker	60,000	0	60,000	55,000
Total Non-Executive Directors	574,394	2,144	576,538	511,537

1 Benefits are cost of home-to-office travel and associated tax paid by the Company for Independent Non-Executive Directors carrying out duties at the Company's head office in Huntingdon.

2 60 per cent of Stephen Billingham's costs are met by Anglian Water Services Limited, with the remainder paid by Anglian Water Group.

3 Steve Good stepped down from the Board on 31 October 2018.

Fees

There were the following changes to fees this year effective 1 April 2018, following an independent review of Non-Executive Director fees by PricewaterhouseCoopers (PwC), our retained consultants. These changes were made in line with market rate comparisons.

Table 17

	Base pay for Non-Executive Directors prior to 1 April 2018 (£)	Base pay for Non-Executive Directors effective 1 April 2018 (£)
Polly Courtice	45,000	50,000
John Hirst	65,000	70,000
Paul Whittaker	55,000	60,000

IMPLEMENTATION OF REMUNERATION POLICY IN 2019/20

2019/20 base pay

The Committee reviewed current base pay arrangements and agreed there would be a 3 per cent increase for Executive Directors' and Non-Executive Directors' fees in 2019/20 in line with the increase to the wider workforce.

2019/20 deferred bonus

The Committee reviewed the current bonus and LTIP schemes and decided that the previous annual bonus scheme and LTIP will be replaced by one scheme, which only rewards measures that customers have indicated are important to them. There will be no reward directly linked to securing shareholder returns, as the Committee believes that achieving customer service goals will be in all stakeholders' long-term interests – an efficient, sustainable organisation with customers' interests at its heart will deliver for everyone, including shareholders.

The Deferred Bonus Scheme will be implemented in 2019/20, with the measures changing between 2019/20 and 2020/21 as we transition across regulatory cycles. At the start of the 2019/20 performance year, the Company does not have clear visibility of the stretching targets Ofwat will set for the next AMP. As a consequence, for year one of the new Deferred Bonus Scheme the performance contract currently used for the annual bonus will be measured. From 2020/2021, the Deferred Bonus Scheme will have three sets of measures:

Customer Satisfaction: such as C-MeX, D-MeX and R-MeX.

Customer Delivery: a small number of ODIs representing the most important customer priorities as determined by our customers.

Customer Efficiency: a measure of financial efficiency shared with customers, to be set following the Final Determination.

At the end of the performance year, achievement will be calculated and half of the reward earned will be paid out. The measures will be directly linked to the 2020–2025 outcomes that are agreed following our Business Plan submission and the Final Determination.

The remaining half will be deferred and paid out in two tranches – two years and three years after the first payment and therefore three and four years after the performance period began. In addition to the initial performance criteria, these payments will also be dependent on a number of serviceability measures being sustained over the period of the scheme.

We are also increasing the degree of discretion and oversight applied by the Remuneration Committee. It is critical to our customers, and to the future success of the Company, that short-term decisions are not taken at the expense of the long-term viability of the water infrastructure in the region. The Committee will therefore apply a series of tests to ensure that there are material deductions to any award in the event of a deterioration in environmental, health and safety record or reputation and retains full discretion to look at performance in the round, with the ability to reduce any award (including to nil) in the event of short-term focus at the expense of long-term customer needs. Comprehensive malus and clawback provisions will also be built into the scheme rules to ensure that Executives are held to the highest standards of behaviour.

The Committee believes that this policy and the publication of measures and achievement will mean that:

- the reward reflects long-term sustained performance for the benefit of customers
- any rewards are transparent and there is read-across from achievement to the level of reward
- rewards are proportional to the challenge of the goals set, so that maximum rewards are only payable against outstanding delivery
- rewards reflect achievement of the goals and challenges set out in our final Business Plan
- rewards will reflect outperformance that has also benefited the customer, for example through ODI reward, reinvestment or the sharing of outperformance.

The detail of the measures, once the targets are agreed in the Final Determination, will be published in the Annual Integrated Report, and we will continue to publish the detail annually.

Illustration of the deferred bonus potential for the Executive Directors

Table 18

	Base salary as at 1 April 2019 (£)	Deferred bonus potential 2019/20 (percentage of base salary)
Peter Simpson	505,277	270%
Scott Longhurst	505,277	270%

Note: For the 2019/20 potential, depending on the outcomes assessed by the Committee as achieved for the measures, 50 per cent will be paid in cash at the end of the initial performance period, 35 per cent will be deferred for a further two-year period and 15 per cent will be deferred for a further three-year period. The scheme rules allow for changes in the level of deferral for future awards as we transition from the previous annual bonus and LTIP schemes.

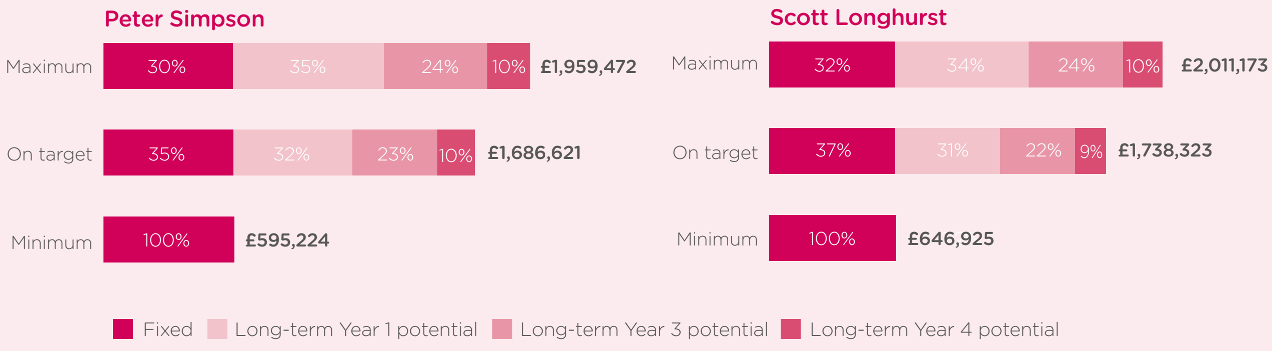
Illustrations of application of the remuneration policy

The charts in Table 19 show the weighting as a percentage of base pay for the Executive Directors' total potential remuneration that could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2019/20.

In these charts:

- fixed remuneration is the minimum payable and is made up of base pay for 2019/20 plus the value of cash in lieu of pension and benefits
- the Deferred Bonus Scheme payments are split into Year 1 (2020), Year 3 (2022) and Year 4 (2023)
- the 'on target' bar in the charts shows the percentage of fixed remuneration that could be earned for achieving threshold levels of performance plus the minimum threshold performance for the deferred bonus
- maximum performance would result in the maximum deferred bonus payment. The maximum bars in all the charts include the deferred bonus awards granted in 2019/20 that are due to vest in subsequent years; they do not include the LTIP awards under the previous scheme that were granted in 2017, which will vest in May 2020.

Table 19



Note: Percentages do not all add up to 100 per cent due to rounding.

CONDITIONS IN THE WIDER GROUP

Percentage change in CEO remuneration compared with other employees

Table 20 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2017/18 to 2018/19 and follows the relevant guidelines. 'Other employees' are the employees of Anglian Water Services and AWG Group Limited who have been employed for the full 2018/19 year. This group excludes the senior executives on the Management Board of Anglian Water Services.

Table 20

	% change in CEO remuneration, 2018/19 vs 2017/18	% change in remuneration for other employees, 2018/19 vs 2017/18
Base pay[1]	0.0%	3.45%
Taxable benefits[2]	0.27%	6.04%
Annual bonus[3]	-3.81%	2.38%

1 Includes Company-wide annual pay review and salary progression.

2 The slight increase in taxable benefits for the CEO is owing to a difference in fuel allowance paid in 2017/18 in comparison to 2018/19. The increase for 'other employees' relates to an overall increase in the number of employees receiving a car benefit as well as an increase in financial awards through the AWS recognition system.

3 The majority of employees are eligible for a bonus as part of one of the Anglian Water bonus schemes. The decrease in the percentage change in annual bonus for the CEO reflects the lower level of outperformance in 2018/19 compared to 2017/18, notably performance on the Outcome Delivery Incentives measure, as described in other sections of this report. Further details can be found in Table 9. The increase in the percentage change in annual bonus for the other employees is owing to small increases in overall payments across the majority of the bonus schemes within AWS.

Table 21 shows the CEO's total remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent remuneration of AWG employees.

Table 21

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	Option A	66 to 1	50 to 1	40 to 1

Note: All figures included in the ratio calculations were based on an effective date from 31 March 2019. The methodology used was Option A under the Corporate Governance Code. Option A was used to calculate the ratio as it was deemed to be the most robust, transparent and accurate method available.

The figures in the table rely on estimated figures for the CEO LTIP and annual bonus, and employee annual bonus figures at the time of writing.

All pay elements have been used to calculate the total compensation for employees and have been adjusted to a full-time equivalent for those who work part-time or have joined part way through the year. An adjustment has also been made for the hourly working employees to represent full-time working.

The Company believes that the median pay ratio is consistent with its overall policies relating to remuneration and how these apply to the CEO and Anglian Water employees. In general, the pay, bonus and LTIP policies that are applied across the Group show that as employees progress into more senior roles they become eligible for an increase in overall remuneration through eligibility for bonus and LTIP schemes.

Table 22 shows the salary and total pay and benefits for the employees at the 25th, 50th and 75th percentile and the salary component of total pay and benefits for these employees.

Table 22

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	£490,560	£22,182	£29,126	£38,544
Total pay and benefits	£1,920,683	£29,004	£38,125	£47,785

Note: Salary includes base salary, basic hours (for hourly paid individuals) and holiday pay.

Relative importance of spend on pay

Table 23 below sets out employee remuneration, amounts paid in dividends and capital expenditure for the years ended 31 March 2018 and 31 March 2019.

Table 23

	AWS		
	2018/19 £m	**2017/18 £m**	**% change**
Remuneration paid to employees[1]	202.7	189.4	7.0
Dividend paid outside the AWS financing group net of equity injection[2]	46.0	86.1	(46.6)
Capital investment[3] (cash)	470.7	449.6	4.7

1 Remuneration paid to employees has increased by 7.0 per cent. This includes an annual pay increase for all employees of 3 per cent, an increase of 3.5 per cent in the average number of employees and a one-off pension provision of £3.3 million in respect of guaranteed minimum pension (GMP) equalisation.

2 It is noted that dividends paid outside of the AWS financing group (which is defined on page 29) were £68 million, of which £22 million came back by way of equity injection into AWS in October 2018. It is further noted that Anglian Water Group did not pay any dividends to shareholders in this financial year.

3 Capital investment is higher in 2018/19 compared to the prior year, which is in line with expectations for this period in the AMP and the capital reinvestment programme. Note that the prior year is restated for the impact of IFRS 15, which requires developer cash contributions to be shown as revenue rather than an offset against capital investment.

REMUNERATION COMMITTEE DECISIONS

Consideration by the Directors of matters relating to Directors' remuneration

Remuneration matters relating to the 2018/19 financial year were discussed at Remuneration Committee meetings held on 21 May 2018, 18 July 2018, 28 November 2018, 23 January 2019, 14 February 2019 and 27 March 2019. The items discussed at these meetings are summarised below:

May 2018

- Approval of Remuneration Report 2018
- Approval of the performance contract outturn 2018
- Performance review and pay and bonus recommendation for senior management
- Approval of pay awards to Executive Directors for 2018/19
- Discussion of Co-Investment Plan participants for the forthcoming year
- Approval of vesting of 2015 LTIP award and approval of 2018 LTIP awards
- Approval of contractual payments for leavers
- Gender pay update
- Non-Executive Director pay review

July 2018

- Discussion about Executive Directors' leaving arrangements

November 2018

- Discussion of gender pay gap reporting
- Approval of AWG Loyalty Savings Scheme
- Discussion regarding executive pay

January 2019

- Review of offer for new CFO

February 2019

- Initial review of the vesting of the 2016 LTIP award
- Initial review of the of the 2018/19 performance contract
- Review of the draft 2019/20 performance contract
- LTIP planning for 2019–2022
- Review of the executive and Management Board pay levels

March 2019

- Evaluation of the Remuneration Committee
- Approval of the design of the Loyalty Savings Scheme 2019
- Review of the current LTIP design

The Committee's terms of reference are available at www.anglianwater.co.uk/governance.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 109. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 27 March 2019. No material shortcomings in the operation of the Committee were highlighted.

External advisors

During 2018/19, the Committee used PwC as external remuneration consultants to provide advice and benchmarking data as part of a review of CEO and CFO remuneration packages. PwC also acts as the Company's internal auditor.

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Committee.

The report was approved by the Board on 29 May 2019 and signed on its behalf.

Paul Whittaker

Chairman of the Remuneration Committee

29 May 2019

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the Company) for the year ended 31 March 2019.

Business review

The ultimate parent company of Anglian Water Services Limited is Anglian Water Group Limited, a company registered in Jersey. Anglian Water Group Limited is owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management (CFSAM), Infinity Investments S.A. (Infinity), IFM Investors and Camulodunum Investments Ltd. CFSAM sold part of its holding in Anglian Water Group Limited to Infinity on 22 June 2018. The Company's ownership structure is detailed on page 28.

The information that fulfils the requirement of the Strategic Report, including a summary of the Group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on pages 3 to 97. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on page 64.

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 103 to 110 and is incorporated into this Directors' Report by reference.

Details of the corporate governance arrangements resulting from the securitisation of the Company in 2002 can be found on page 103 of the Corporate Governance Report, together with the disclosures that satisfy the requirements of paragraph 13 (2) (c) (d) (f) (h) and (i) of Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, resulting from the EU Takeover Directive (DTR 7.2.6R).

Financial instruments disclosures

Details are included in note 21 of the financial statements.

Principal activities

The Company provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 900 million litres of used water per day from six million people and businesses, including customers who receive their water from other companies. The used water is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, the Company provides retail services to household customers within its region.

Results and dividends

The Group income statement on page 145 shows the Group's results and profit for the year. Details of dividends paid during the year and proposed dividends can be found in note 12 of the financial statements.

Risk management

Detailed information around the Company's risk management processes, including its approach to financial risks, can be found on pages 72 to 76.

Health and safety

Details are included on pages 46 to 47.

Directors

Current Directors of the Company are listed on pages 100 to 102 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 105.

Directors' indemnities

During the 2018/19 financial year and up until the date of the signing of the financial statements, the Company has maintained Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2)–(6)) of the Companies Act 2006.

Charitable and political donations

The Company continues to provide support to WaterAid – our nominated charity – which transforms lives by improving access to clean water, decent toilets and good hygiene in the world's poorest communities.

During the year, the Company's ultimate parent undertaking, Anglian Water Group Limited, donated £40,000 to WaterAid and actively encouraged the participation of the Company's employees in various fundraising activities through a number of initiatives, including quizzes, cake bakes and the ongoing monthly

WaterAid lottery. Volunteering for WaterAid is a key part of the Company's Love to Help employee volunteering programme, which allows employees to take time out of the office in support of various good causes. With the support of the Company, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an additional £1,060,927 for WaterAid (2018: £902,050) – the highest amount ever raised by any water company.

No political donations were made during the year (2018: £nil).

Future developments

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

Research and development

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

Customers

The Company actively seeks to engage with present and future customers across its region. Future customers are engaged through school outreach programmes and hosting students at our education centres. A number of elements of our PR19 customer engagement programme have reached children and young people. H2OMG was a week-long festival with a fairground theme, based in The Forum, Norwich, which attracted over 33,000 people in August 2017, before the reporting period. The purpose of the event was to gain customers' views on how we should deal with the future challenges we face to balancing supply and demand. It also explored which options we should pursue, for example, metering, leakage and developing new water resources. The insight gained directly influenced the development of our Water Resources Management Plan.

An Anglian Water touring van also visited a range of locations throughout the spring of 2018, commencing at a local primary school where pupils named the roadshow 'H2O Let's Go'. The roadshow visited a range of locations across the Anglian Water and Hartlepool region, including events that attracted families (such as county shows and town festivals). An extensive programme of customer engagement has been developed for this AMP, with the aim of generating an ongoing dialogue regarding customer priorities and making the best use of insight from existing contact channels. The programme has been developed in line with the Company's ambition to put customers at the heart of its activities, as well as being updated in response to Ofwat's guidance for PR19.

The Company's Business Plan for 2015–2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services, and was a step change from the engagement activity for the previous plan. The customer engagement activity for PR19 is another significant step forward, to keep pace with technological advances and changing customer expectations. A diverse range of innovative and traditional techniques have been used to engage with customers and to analyse results according to customer circumstances, behaviours and attitudes.

As part of business planning activity, the Company established an online community that consists of 500 customers across the East of England. The online community is used to explore customer views on a wide range of topics. This can involve asking for responses to open-ended questions or simply asking people if they support a specific proposal (or not).

Since 2011, the independent Customer Engagement Forum (CEF) has been in place to advise and challenge the Company on how it engages with customers and how customer views are reflected in its plans. From the start of this AMP, the CEF has also monitored current performance and challenged areas where the Company has not met targets, or has significantly exceeded them. In particular, it has focused on the Company's suite of Outcome Delivery Incentives (ODIs).

The CEF has members from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy. The Company has also formed a Customer Board from a representative selection of members from the online community to provide further guidance and directly feed in customers' views, running alongside the CEF and the Management Board. Excellent customer service is a high priority and the Company recognises employees who provide such service. The Management Board is actively involved in the development of the Company's customer service offering, monitors the results of the quarterly Service Incentive Mechanism (SIM) survey conducted by Ofwat (itself an ODI) and uses Management Board meetings to discuss performance that has resulted in the SIM score at each quarter.

Employees

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

The Company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them.

The Company recognises three trade unions, with whom management meets regularly for collective bargaining and consultation purposes. The Company has 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. The Company also operates a further elected employee forum Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and consider suggestions for change.

The Company has a series of policies that both inform and guide all employees on the Company's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour. The Group has a whistleblowing policy, details of which can be found in the Audit Committee Report on page 112. The Company also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

The Company participates in the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The Company recognises and values the diversity of its people, whose backgrounds, experience and identities broaden and enhance the capability and success of its teams. The Company is committed to reflecting the diversity of its customers in its workforce and with its supply chain partners to bring positive change in this area, and this inclusion-based approach recognises that individuals who work for the Company, or who want to work for the Company will be valued, treated fairly and respected for their individuality. All job applications are welcomed and selection is based on applicants' relevant skills, experience and competence for the role. In the event of a candidate or employee having a disability or health condition that affects the way they might work, we will make every effort to find suitable and appropriate adjustments. Our aim will always be to enable people to work as effectively as possible and in ways that suit individual needs. Career development and promotion opportunities for disabled people are identical to those of other employees.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 33 of the Group financial statements.

Going concern

The Directors believe, after due and careful enquiry, that the Company has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2019 financial statements.

Directors' disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved, under section 418 of the Companies Act 2006 the following applies:

a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

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, Deloitte, have indicated their willingness to stay in office and are deemed to be reappointed.

By order of the Board

Claire Russell
Company Secretary
29 May 2019

Registered Office:
Anglian Water Services Limited
Lancaster House, Lancaster Way,
Ermine Business Park Huntingdon
Cambridgeshire PE29 6XU
Registered in England and Wales No 2366656

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Integrated Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed in the Our leadership team and Board of Directors sections on page 6 and pages 100 to 102 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- the Directors' Report and Strategic Report contained in the Annual Integrated Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Integrated Report, 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.

Claire Russell
Company Secretary
29 May 2019

STATUTORY ACCOUNTS

Contents

Group income statement

for the year ended 31 March 2019

Notes		2019 Underlying results £m	2019 Other items[1] £m	2019 Total £m	2018 (Restated) Underlying results £m	2018 (Restated) Other items[1] £m	2018 (Restated) Total £m
	Revenue	**1,354.7**	**-**	**1,354.7**	1,312.0	-	1,312.0
5	Other operating income	**13.6**	**-**	**13.6**	11.1	-	11.1
	Operating costs						
6	Operating costs before depreciation and amortisation	**(630.5)**	**-**	**(630.5)**	(592.1)	-	(592.1)
	Depreciation and amortisation	**(348.8)**	**-**	**(348.8)**	(335.6)	-	(335.6)
	Total operating costs	**(979.3)**	**-**	**(979.3)**	(927.7)	-	(927.7)
	Operating profit	**389.0**	**-**	**389.0**	395.4	-	395.4
	Finance income	**2.9**	**-**	**2.9**	1.6	191.8	193.4
	Finance costs including fair value (losses)/gains on derivative financial instruments	**(331.4)**	**(98.4)**	**(429.8)**	(344.1)	117.6	(226.5)
8	Net finance costs	**(328.5)**	**(98.4)**	**(426.9)**	(342.5)	309.4	(33.1)
7	Profit on disposal of business	**-**	**-**	**-**	-	4.6	4.6
	(Loss)/profit before tax from continuing operations	**60.5**	**(98.4)**	**(37.9)**	52.9	314.0	366.9
9	Tax credit/(charge)			**5.1**			(34.6)
	(Loss)/profit for the year			**(32.8)**			332.3

[1] Other items comprise fair value losses on derivative financial instruments and energy hedges of £98.4 million (2018: gains of £117.6 million), and the prior year includes inter-company interest income from Anglian Water Services Holdings Limited of £191.8 million (2019: £nil) and profit on the disposal of the non-household business of £4.6 million (2019: £nil).

Notes 1 to 33 are an integral part of these consolidated financial statements.

The results, financial position and classification of cash flows for the year ended 31 March 2018 have been restated to reflect the adoption of IFRS 15 'Revenue from Contracts with Customers' (see notes 1 and 31).

Group statement of comprehensive income

for the year ended 31 March 2019

Notes		2019 £m	2018 (Restated) £m
	(Loss)/profit for the year	**(32.8)**	332.3
	Other comprehensive income for the year:		
	Items that will not be reclassified to profit or loss		
24	Actuarial (losses)/gains on retirement benefit obligations	**(18.8)**	77.4
9	Income tax credit/(charge) on items that will not be reclassified	**3.1**	(13.3)
		(15.7)	64.1
	Items that may be reclassified subsequently to profit or loss		
25	Gains on cash flow hedges recognised in equity	**37.8**	16.4
25	Gains on cost of hedging recognised in equity	**0.9**	-
25	Gains on cash flow hedges transferred to profit or loss	**1.5**	1.9
25	Losses on cost of hedging transferred to profit or loss	**(0.3)**	-
9	Income tax charge on items that may be reclassified	**(6.5)**	(3.1)
		33.4	15.2
	Total other comprehensive income for the year	**17.7**	79.3
	Total comprehensive (expense)/income for the year	**(15.1)**	411.6

Group balance sheet

at 31 March 2019

Notes		At 31 March 2019 £m	At 31 March 2018 (Restated) £m	At 1 April 2017 (Restated) £m
	Non-current assets			
13	Intangible assets	**197.3**	168.3	139.4
14	Property, plant and equipment	**9,770.2**	9,663.7	9,523.1
15	Investments	**-**	-	1,602.6
21	Derivative financial instruments	**195.6**	89.6	256.1
24	Retirement benefit surpluses	**49.3**	56.3	4.0
		10,212.4	9,977.9	11,525.2
	Current assets			
16	Inventories	**11.6**	10.0	9.3
17	Trade and other receivables	**485.7**	478.9	429.9
	Investments – cash deposits	**297.0**	40.0	75.0
	Cash and cash equivalents	**257.3**	247.1	354.8
21	Derivative financial instruments	**20.3**	48.5	12.6
		1,071.9	824.5	881.6
7	Assets classified as held for sale	**-**	-	85.6
	Total assets	**11,284.3**	10,802.4	12,492.4
	Current liabilities			
19	Trade and other payables	**(492.0)**	(512.2)	(452.4)
	Current tax liabilities	**(253.0)**	(264.3)	(267.6)
20	Borrowings	**(315.0)**	(220.0)	(278.4)
21	Derivative financial instruments	**(16.0)**	(16.4)	(16.3)
22	Provisions	**(4.2)**	(5.3)	(4.1)
		(1,080.2)	(1,018.2)	(1,018.8)
	Net current liabilities	**(8.3)**	(193.7)	(137.2)
	Non-current liabilities			
20	Borrowings	**(6,619.6)**	(6,231.7)	(6,196.5)
21	Derivative financial instruments	**(980.4)**	(862.6)	(1,043.8)
23	Deferred tax liabilities	**(936.8)**	(957.4)	(926.6)
24	Retirement benefit obligations	**(45.8)**	(47.2)	(79.6)
22	Provisions	**(8.0)**	(10.7)	(10.2)
		(8,590.6)	(8,109.6)	(8,256.7)
7	Liabilities directly associated with assets held for sale	**-**	-	(11.2)
	Total liabilities	**(9,670.8)**	(9,127.8)	(9,286.7)
	Net assets	**1,613.5**	1,674.6	3,205.7
	Capital and reserves			
26	Share capital	**32.0**	10.0	10.0
	Retained earnings	**1,655.4**	1,769.9	3,316.2
25	Hedging reserve	**(75.9)**	(105.3)	(120.5)
	Cost of hedging reserve	**2.0**	-	-
	Total equity	**1,613.5**	1,674.6	3,205.7

Notes 1 to 33 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 May 2019 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director of Finance and Non-Regulated Business

Company balance sheet

at 31 March 2019
Company number 02366656

Notes		At 31 March 2019 £m	At 31 March 2018 (Restated) £m	At 1 April 2017 (Restated) £m
	Non-current assets			
13	Intangible assets	**197.3**	168.3	139.4
14	Property, plant and equipment	**9,770.2**	9,663.7	9,523.1
15	Investments	**-**	-	1,602.6
21	Derivative financial instruments	**195.6**	89.6	256.1
24	Retirement benefit surpluses	**49.3**	56.3	4.0
		10,212.4	9,977.9	11,525.2
	Current assets			
16	Inventories	**11.6**	10.0	9.3
17	Trade and other receivables	**485.7**	478.9	429.9
	Investments – cash deposits	**297.0**	40.0	75.0
	Cash and cash equivalents	**255.5**	245.4	353.1
21	Derivative financial instruments	**20.3**	48.5	12.6
		1,070.1	822.8	879.9
7	Assets classified as held for sale	**-**	-	85.6
	Total assets	**11,282.5**	10,800.7	12,490.7
	Current liabilities			
19	Trade and other payables	**(538.7)**	(558.5)	(498.3)
	Current tax liabilities	**(253.0)**	(264.3)	(267.6)
20	Borrowings	**(315.0)**	(220.0)	(278.4)
21	Derivative financial instruments	**(16.0)**	(16.4)	(16.3)
22	Provisions	**(4.2)**	(5.3)	(4.1)
		(1,126.9)	(1,064.5)	(1,064.7)
	Net current liabilities	**(56.8)**	(241.7)	(184.8)
	Non-current liabilities			
20	Borrowings	**(6,619.6)**	(6,231.7)	(6,196.5)
21	Derivative financial instruments	**(980.4)**	(862.6)	(1,043.8)
23	Deferred tax liabilities	**(936.8)**	(957.4)	(926.6)
24	Retirement benefit obligations	**(45.8)**	(47.2)	(79.6)
22	Provisions	**(8.0)**	(10.7)	(10.2)
		(8,590.6)	(8,109.6)	(8,256.7)
7	Liabilities directly associated with assets held for sale	**-**	-	(11.2)
	Total liabilities	**(9,717.5)**	(9,174.1)	(9,332.6)
	Net assets	**1,565.0**	1,626.6	3,158.1
	Capital and reserves			
26	Share capital	**32.0**	10.0	10.0
	Retained earnings	**1,606.9**	1,721.9	3,268.6
25	Hedging reserve	**(75.9)**	(105.3)	(120.5)
	Cost of hedging reserve	**2.0**	-	-
	Total equity	**1,565.0**	1,626.6	3,158.1

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year, dealt with in the financial statements of the Company, is £(33.3) million (2018: profit £331.9 million).

Notes 1 to 33 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 May 2019 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director of Finance and Non-Regulated Business

Group statement of changes in equity

for the year ended 31 March 2019

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
Year ended 31 March 2019					
At 1 April 2018 (as previously reported)	**10.0**	**1,312.7**	**(105.3)**	**-**	**1,217.4**
Change in accounting policy					
IFRS 9	**-**	**2.0**	**(3.8)**	**1.8**	**-**
IFRS 15	**-**	**457.2**	**-**	**-**	**457.2**
At 1 April 2018 (restated)	**10.0**	**1,771.9**	**(109.1)**	**1.8**	**1,674.6**
Loss for the year	**-**	**(32.8)**	**-**	**-**	**(32.8)**
Other comprehensive (expense)/income for the year	**-**	**(15.7)**	**33.2**	**0.2**	**17.7**
Total comprehensive (expense)/income	**-**	**(48.5)**	**33.2**	**0.2**	**(15.1)**
Issue of share capital	**22.0**	**-**	**-**	**-**	**22.0**
Dividends (see note 12)					
Available for distribution to investors in the ultimate parent company	**-**	**(68.0)**	**-**	**-**	**(68.0)**
At 31 March 2019	**32.0**	**1,655.4**	**(75.9)**	**2.0**	**1,613.5**
Year ended 31 March 2018 (restated)					
At 1 April 2017 (as previously reported)	10.0	2,899.0	(120.5)	-	2,788.5
Change in accounting policy – IFRS 15	-	417.2	-	-	417.2
At 1 April 2017 (restated)	10.0	3,316.2	(120.5)	-	3,205.7
Profit for the year	-	332.3	-	-	332.3
Other comprehensive income for the year	-	64.1	15.2	-	79.3
Total comprehensive income	-	396.4	15.2	-	411.6
Dividends (see note 12)					
Available for distribution to investors in the ultimate parent company	-	(86.1)	-	-	(86.1)
Not available for distribution to investors in the ultimate parent company[1]:					
– One-off restructuring dividend	-	(1,602.6)	-	-	(1,602.6)
– Special dividend to fund the transfer of the non-household retail business	-	(62.2)	-	-	(62.2)
– Servicing of inter-company interest	-	(191.8)	-	-	(191.8)
At 31 March 2018 (restated)	10.0	1,769.9	(105.3)	-	1,674.6

[1] Dividends described as not available for distribution to investors in the ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 12).

The hedging reserve represents the cumulative effective portion of gains or losses arising on the changes in fair value of hedging instruments excluding those fair value movements identified as cost of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Company statement of changes in equity

for the year ended 31 March 2019

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
Year ended 31 March 2019					
At 1 April 2018 (as previously reported)	**10.0**	**1,264.7**	**(105.3)**	**-**	**1,169.4**
Change in accounting policy					
IFRS 9	**-**	**2.0**	**(3.8)**	**1.8**	**-**
IFRS 15	**-**	**457.2**	**-**	**-**	**457.2**
At 1 April 2018 (restated)	**10.0**	**1,723.9**	**(109.1)**	**1.8**	**1,626.6**
Loss for the year	**-**	**(33.3)**	**-**	**-**	**(33.3)**
Other comprehensive (expense)/income for the year	**-**	**(15.7)**	**33.2**	**0.2**	**17.7**
Total comprehensive (expense)/income	**-**	**(49.0)**	**33.2**	**0.2**	**(15.6)**
Issue of share capital	**22.0**	**-**	**-**	**-**	**22.0**
Dividends (see note 12)					
Available for distribution to investors in the ultimate parent company	**-**	**(68.0)**	**-**	**-**	**(68.0)**
At 31 March 2019	**32.0**	**1,606.9**	**(75.9)**	**2.0**	**1,565.0**
Year ended 31 March 2018 (restated)					
At 1 April 2017 (as previously reported)	10.0	2,851.4	(120.5)	-	2,740.9
Change in accounting policy – IFRS 15	-	417.2	-	-	417.2
At 1 April 2017 (restated)	10.0	3,268.6	(120.5)	-	3,158.1
Profit for the year	-	331.9	-	-	331.9
Other comprehensive income for the year	-	64.1	15.2	-	79.3
Total comprehensive income	-	396.0	15.2	-	411.2
Dividends (see note 12)					
Available for distribution to investors in the ultimate parent company	-	(86.1)	-	-	(86.1)
Not available for distribution to investors in the ultimate parent company[1]:					
– One-off restructuring dividend	-	(1,602.6)	-	-	(1,602.6)
– Special dividend to fund the transfer of the non-household retail business	-	(62.2)	-	-	(62.2)
– Servicing of inter-company interest	-	(191.8)	-	-	(191.8)
At 31 March 2018 (restated)	10.0	1,721.9	(105.3)	-	1,626.6

[1] Dividends described as not available for distribution to investors in the ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 12).

The hedging reserve represents the cumulative effective portion of gains or losses arising on the changes in fair value of hedging instruments excluding those fair value movements identified as cost of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Group and Company cash flow statements

for the year ended 31 March 2019

Notes		Group 2019 £m	Group 2018 (Restated) £m	Company 2019 £m	Company 2018 (Restated) £m
	Cash flows from:				
	Operating activities				
	Operating profit	**389.0**	395.4	**389.0**	395.4
	Adjustments for:				
	Depreciation and amortisation	**348.8**	335.6	**348.8**	335.6
	Assets adopted for nil consideration	**(22.0)**	(20.9)	**(22.0)**	(20.9)
	Profit on disposal of property, plant and equipment	**(1.2)**	(4.1)	**(1.2)**	(4.1)
	Difference between pension charge and cash contributions	**(12.7)**	(9.2)	**(12.7)**	(9.2)
	Net movement in provisions	**(2.7)**	2.2	**(2.7)**	2.2
	Working capital movements:				
	Increase in inventories	**(1.6)**	(0.7)	**(1.6)**	(0.7)
	Increase in trade and other receivables	**(6.4)**	(49.3)	**(6.4)**	(49.3)
	Increase in trade and other payables	**9.5**	41.8	**9.5**	41.8
	Cash generated from operations	**700.7**	690.8	**700.7**	690.8
	Income taxes paid[1]	**(30.2)**	(23.5)	**(30.2)**	(23.5)
	Net cash flows from operating activities	**670.5**	667.3	**670.5**	667.3
	Investing activities				
	Repayment of loans by intermediate parent company	**-**	1,602.6	**-**	1,602.6
	Purchase of property, plant and equipment	**(405.0)**	(385.3)	**(405.0)**	(385.3)
	Purchase of intangible assets	**(65.7)**	(64.3)	**(65.7)**	(64.3)
7	Disposal of business, net of cash disposed	**-**	79.0	**-**	79.0
	Proceeds from disposal of property, plant and equipment	**1.6**	4.5	**1.6**	4.5
	Interest received on deposits	**2.9**	1.5	**2.8**	1.5
	Interest received on inter-company loan	**-**	192.3	**-**	192.3
	Net cash flows (used in)/from investing activities	**(466.2)**	1,430.3	**(466.3)**	1,430.3
	Financing activities				
	Interest paid	**(215.8)**	(215.9)	**(215.8)**	(215.9)
	Debt issue costs paid	**(3.3)**	(1.7)	**(3.3)**	(1.7)
	Interest element of finance lease rental payments	**(0.6)**	(0.8)	**(0.6)**	(0.8)
	Increase in amounts borrowed	**447.8**	248.6	**447.8**	248.6
	Repayment of amounts borrowed	**(140.0)**	(247.7)	**(140.0)**	(247.7)
	Repayment of accreted interest on derivatives	**-**	(73.9)	**-**	(73.9)
	Repayment of principal on derivatives	**27.0**	-	**27.0**	-
	Capital element of finance lease rental payments	**(6.2)**	(5.7)	**(6.2)**	(5.7)
	(Increase)/decrease in short-term bank deposits	**(257.0)**	35.0	**(257.0)**	35.0
	Proceeds from issue of shares	**22.0**	-	**22.0**	-
12	Dividends paid:				
	Available for distribution to investors in the ultimate parent company	**(68.0)**	(86.1)	(68.0)	(86.1)
	Not available for distribution to investors in the ultimate parent company[2]:				
	- One-off restructuring dividend	**-**	(1,602.6)	**-**	(1,602.6)
	- Special dividend to fund the transfer of the non-household retail business	**-**	(62.2)	**-**	(62.2)
	- Servicing of inter-company interest	**-**	(192.3)	**-**	(192.3)
	Net cash flows used in financing activities	**(194.1)**	(2,205.3)	**(194.1)**	(2,205.3)
	Net increase/(decrease) in cash and cash equivalents	**10.2**	(107.7)	**10.1**	(107.7)
	Cash and cash equivalents at the beginning of the year	**247.1**	354.8	**245.4**	353.1
18	**Cash and cash equivalents at 31 March**	**257.3**	247.1	**255.5**	245.4

1 Income taxes paid are all inter-company with AWG Group Limited.

2 Dividends described as not available for distribution to investors in the ultimate parent company refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 12).

Notes to the Group financial statements

for the year ended 31 March 2019

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have 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 (IFRSs), and interpretations issued by the IFRS Interpretations Committee (IFRICs), as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

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

Underlying profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the Group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business. In addition, following market reform, a non-recurring profit arose on the disposal of the Company's non-household water and water recycling retail business in the prior year.

(b) Basis of preparation

The Anglian Water Services Group ('the Group') financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited ('the Company') and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company 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.

New standards adopted in the period

The Group has adopted the following new accounting standards that became applicable for the current reporting period:
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'.

The relevant new accounting policies are set out below (sections e, m, o and s), with the financial impact of adopting these new accounting standards set out in note 31.

Primary financial statement format

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column, 'Other items'. This comprises fair value losses on derivative financial instruments and energy hedges, and the prior year includes inter-company interest income from Anglian Water Services Holdings Limited and profit on the disposal of the non-household business. By showing these items separately, management believes the underlying results provide the reader with a more meaningful understanding of the performance of the Group.

(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 except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial Instruments'.

(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. Therefore, the Directors believe that the whole of the Group's activities constitute a single class of business.

(e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services.

Principal source of income

The Group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the Group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how the Group recognises the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly for the variable element, revenue is recognised as water is supplied, based on volumes supplied at the relevant reporting date.

Related non-volumetric, or standing, charges reflect our obligation to stand ready to deliver water as is the case with unmeasured supply (see below), and is accounted for accordingly.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers is recognised on a time basis under IFRS 15.

Non-household revenue is charged and recognised on the basis of volumes supplied, based on data submitted by the market operator.

Grants and contributions

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. The significant components of grants and contributions, and their treatment, are as follows:

i *New connection charges*
The Group considers that the developer requesting the connection is the customer and that the Group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income as the connection is completed.

ii *Self-lay, requisitions and adoption fees*
The Group has reached the same conclusion as for new connection charges (see (i) above).

iii *Fair value of assets adopted for £nil consideration*
These are principally sewers and pumping stations that a developer has constructed and then contributed to the Group, on a £nil consideration basis, in exchange for being relieved of any future liability. As the Group does not have any performance obligation to the developer post-adoption, the Group has concluded that immediate recognition based on the fair value of the asset adopted is appropriate.

iv *Infrastructure charges*
Infrastructure charges are a developer's contribution to fund network reinforcement by the Group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the Group has concluded that the developer is the customer and that the Group's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

v *Diversions*
Diversions arise where a highways agency, or other authority, reimburses the Group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the Group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

Other sources of revenue

i *Other operating income*
The principal sources of other operating income are from the generation of power, the sale of biosolids to farms, rents received and other minor income associated with operating activities.

(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 under 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 that individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

As detailed in note 7, on 1 April 2017 Anglian Water Services Limited completed the sale of the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the Group's ultimate parent undertaking.

The sale was completed for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million, which was recognised in the 2017/18 financial statements.

There were no such exceptional items in 2019.

Notes to the Group financial statements continued

for the year ended 31 March 2019

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 substantively enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

(i) Dividends

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

(j) Intangible assets

Intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years, for both computer software and internally generated assets.

(k) Property, plant and equipment

Property, plant and equipment comprises:

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

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

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 (including meters)	12–40 years
Vehicles and mobile plant and equipment	3–10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, 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) Leased assets

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

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

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

(m) Investments

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the businesses practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.

The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, therefore this is no longer dependent on the Group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
- where credit risk is low or has not increased significantly since recognition ('Stage 1')
- where credit risk is not low or has increased significantly since initial recognition ('Stage 2')
- where the financial asset is credit impaired ('Stage 3').

'12-month expected credit losses' are recognised for Stage 1 while 'lifetime expected credit losses' are recognised for Stage 2.

Expected credit losses (ECLs) are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

(n) 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.

(o) Trade receivables

Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired, it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable.

In calculating the expected loss, the Group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

The Group assesses impairment of trade receivables on a collective basis and where they possess shared credit risk characteristics they have been grouped. These groups are residential, non-household and developer services and other customers.

Trade receivables are considered to be credit impaired where no payment has been received within 180 days past due and we believe there is no realistic prospect of recovery or it is uneconomic to pursue.

(p) 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. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Notes to the Group financial statements continued

for the year ended 31 March 2019

1 Accounting policies continued

(q) Assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, the disposal group is deemed held for sale. At this point the gross assets and gross liabilities of the disposal group are shown separately as held for sale. The value of the disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

(r) Borrowings

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

(s) Derivative financial instruments

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

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the Group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

In some hedge relationships the Group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In this case the fair value change of the currency basis element of the cross currency interest rate swap is deferred in other comprehensive income over the term of the hedge and is reclassified from equity to profit or loss on a straight-line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on a hedge-by-hedge basis.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

(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 is discontinued, 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 is 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 cash flow hedge is discontinued, 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, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

(t) Provisions

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

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.

(u) Retirement benefit obligations

(i) Defined benefit schemes

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

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

(ii) Defined contribution schemes

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

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

IFRS 16 'Leases'

This standard is mandatory for the Group's financial statements from 1 April 2019. The impact on the Group is described below.

IFRS 16 will replace the current guidance in IAS 17 and IFRIC 4. IFRS 16 requires lessees to recognise on the balance sheet a lease liability, reflecting future lease payments, and a 'right of use asset' for the majority of leases, thereby removing the distinction previously made between finance and operating leases under IAS 17. As a result, the Group will bring substantially all leases previously treated as operating leases onto the balance sheet.

On the balance sheet, property, plant and equipment will increase by the value of the right of use asset, with an increase in borrowings reflecting the future lease payments. In the income statement the Group will record an interest expense on the lease liability and depreciation on the right of use asset. In comparison with operating leases under IAS 17, this has changed not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right of use asset and the effective interest rate method applied to the lease liability results in a higher total charge to the income statement in the initial years of the lease, and decreasing expense during the latter part of the lease term. IFRS 16 also impacts the cash flow statement because operating lease payments, previously included within cash generated from operations, are included within financing activities, split between interest paid and the capital element of lease rental payments.

At 31 March 2019, the Group's future minimum lease payments under non-cancellable operating leases were £45.7 million in respect of properties, mainly office buildings, and £1.4 million in respect of plant and equipment, primarily vehicles.

Discounting using the Group's incremental borrowing rate will result in additional assets and corresponding liabilities to be recognised on transition. Additional debt as a result of IFRS 16 amounts to £32.5 million in respect of property leases and £1.3 million in respect of vehicle, plant and equipment leases. The comparable right of use assets on transition are £31.9 million and £1.3 million respectively.

IFRS 16 allows lessees to apply the standard either retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application.

The Group has chosen to apply the modified retrospective approach as well as the following practical expedients:

- When defining a lease 'an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application'. This applies to both contracts that were not previously identified as containing a lease applying IAS 17/IFRIC 4 and those that were previously identified as leases in IAS 17/IFRIC 4. If an entity chooses this expedient it shall be applied to all of its contracts. As a result, where we currently report leases as operating leases, from 1 April 2019 these will be reported 'on balance sheet'. We will not be reviewing contracts where we have previously determined them to not contain a lease under IAS 17/IFRIC 4.

- Rely on our assessment of whether leases are onerous applying IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' immediately before the date of initial application as an alternative to performing an impairment review.

- Leases ending within 12 months of implementation to be accounted for in the same way as short-term leases.

Notes to the Group financial statements continued

2 Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

(a) Significant judgements

The areas where the most critical judgements have been applied are as follows:

(i) Capitalised expenditure

Additions to intangible assets, and to property, plant and equipment, include £66.2 million (2018: £66.8 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the Group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

(ii) Depreciation

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 technological change, prospective economic utilisation and the physical condition of the assets.

(iii) Taxation

The Group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items that will only be resolved once finally agreed with the tax authorities. See notes 9 and 23 for further analysis of the Group's tax charge.

(iv) Recognition of grants and contributions

Under IFRS 15, revenue is recognised when the performance obligations in a contract are met. For grants and contributions in respect of new housing developments, our obligation to the developer is met when properties are connected to the network, and therefore this is considered the relevant trigger for income recognition. We believe the ongoing obligation to maintain the connection to the property is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer.

This is a change from our revenue recognition approach prior to the introduction of IFRS 15, when we considered connection and the ongoing supply of water and/or wastewater services to be a combined obligation that existed over the life of the property, and hence the income was recognised over the estimated life of the assets enabling the provision of the ongoing service. In our view, combining the obligations to two different customers, the developer and the property owner, is not consistent with the requirements of IFRS 15.

A similar revenue recognition approach is taken with diversions. The obligation here is that we divert the sewer or water main at the request of the relevant authority or agency, and our obligation is fully met once the diversion is completed, and therefore the contribution is fully recognised as revenue at that point in time.

(b) Areas involving estimation

The key areas involving estimation are discussed below.

(i) Measured income accrual

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the period end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff, which is calculated based on historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.5 million).

(ii) Bad debts

The Company evaluates the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience. Estimates associated with these provisions are based on, among other things, a consideration of actual collection history and adjusted for other factors such as whether charging orders apply to the customer group. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At 31 March 2019, the provision for doubtful receivables of £193.3 million was supported by nine years of cash collection history, adjusted for other factors. If we based the provision on a shorter collection history of two years, the provision would have been £0.9 million lower. However, the Directors take the view that using a longer history of debt recoverability removes the potential volatility of changing rates on a more frequent basis and hence provides a more consistent basis for accounting.

The uncertainty around Brexit, its impact on the wider economy and on customers' ability to pay their water bills, is of course very difficult to predict with any confidence. The last significant shock to the UK economy was the financial crash in 2008, and we have reviewed the subsequent trend in bad debt charge. Our debt is very short-term in its nature, with over 75 per cent of debt collected within three months of being raised, and as the impact of any economic change is likely to be felt over several months, if not years, the collectability of our customer balances held at the end of March would see a minimal impact in the short term. As a result of our findings, we have not modified the bad debt provision rates for Brexit, nor any other macro-economic metrics, but we will continue to closely monitor any changes in the economic outlook and its potential impact.

(iii) Retirement benefit actuarial assumptions

The Company operates one defined benefit scheme (which is closed to new members and future accrual), a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits', the Company has recognised an actuarial loss of £18.8 million (2018: gain of £77.4 million) in respect of the defined benefit scheme, which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions, which include the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 24 of the financial statements.

3 Segmental information

The Directors believe that the whole of the Group's activities constitute a single class of business.

The Group's revenue is wholly generated from within the United Kingdom.

4 Revenue

	2019 £m	2018 (Restated) £m
Water and sewerage services		
Anglian Water		
Household – measured	**753.0**	726.8
Household – unmeasured	**240.4**	248.7
Non-household – measured	**250.7**	241.0
Grants and contributions	**74.4**	63.1
Other	**36.2**	32.4
	1,354.7	1,312.0

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the above revenue categories.

The above analysis excludes other operating income (see note 5) and finance income (see note 8).

5 Other operating income

Other operating income comprises principally income from sustainable power generation, biosolid sales and rents received.

6 Operating costs

	2019 £m	2018 (Restated) £m
Raw materials and consumables	**18.4**	16.8
Staff costs (see note 10)	**221.1**	205.8
Charge for bad and doubtful debts (see note 17)	**26.5**	28.9
Operating lease rentals		
Properties	**2.3**	1.4
Vehicles, plant and equipment	**4.1**	0.3
Research and development expenditure	**2.3**	2.3
Contribution to the Anglian Water Assistance Fund	**1.1**	0.9
Other operating costs	**422.1**	406.6
Own work capitalised	**(66.2)**	(66.8)
Profit on disposal of property, plant and equipment[1]	**(1.2)**	(4.1)
Operating costs before depreciation and amortisation	**630.5**	592.1
Depreciation of property, plant and equipment (see note 14)	**308.5**	298.1
Amortisation of intangible assets (see note 13)	**40.3**	37.5
Depreciation and amortisation	**348.8**	335.6
Operating costs	**979.3**	927.7

[1] The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

Notes to the Group financial statements continued

6 Operating costs continued

During the year the Group obtained the following services from the Company's auditors:

	2019 £m	2018 £m
Fees payable to the Company's auditors for the audit of the Company and the consolidated financial statements	**0.2**	0.2
Fees payable to the Company's auditors for other services		
Audit-related assurance services	**0.1**	0.2
Other non-audit services	**0.6**	0.3
	0.9	0.7

The Company's auditor during the year ended 31 March 2019 was Deloitte LLP. Audit-related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results. Other non-audit services include £0.6 million for consulting services that relate to supporting management in strategy development for operational activities as well as providing assurance services on the PR19 submission. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors.

7 Profit on disposal of business

On 1 April 2017 Anglian Water Services Limited completed the sale of the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a former fellow subsidiary of the Group's ultimate parent undertaking.

The sale was completed for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million, which is recognised in the 2017/18 financial statements.

8 Net finance costs

	2019 £m	2018 £m
Finance income		
Interest income on short-term bank deposits	**2.9**	1.6
Other interest income[1]	**-**	191.8
	2.9	193.4
Finance costs, excluding fair value (losses)/gains on derivative financial instruments		
Interest expense on other loans including financing expenses	**(220.2)**	(218.9)
Indexation	**(129.6)**	(136.5)
Amortisation of debt issue costs	**(3.7)**	(3.5)
Interest income on finance leases	**0.3**	0.4
Unwinding of discount on provisions	**(0.3)**	(0.3)
Defined benefit pension scheme interest credit/(charge)	**0.4**	(1.8)
Total finance costs	**(353.1)**	(360.6)
Less: amounts capitalised on qualifying assets	**21.7**	16.5
	(331.4)	(344.1)
Fair value (losses)/gains on derivative financial instruments		
Fair value (losses)/gains on energy hedges	**(1.8)**	7.3
Hedge ineffectiveness on cash flow hedges[2]	**3.4**	(1.2)
Hedge ineffectiveness on fair value hedges[3]	**(0.5)**	(0.8)
Amortisation of adjustment to debt in fair value hedge	**(3.5)**	1.7
Restructuring costs on derivatives	**(11.7)**	-
Derivative financial instruments not designated as hedges	**(72.1)**	114.3
Transfer from hedging reserve arising from discontinuation of cash flow hedges	**(12.2)**	(3.7)
	(98.4)	117.6
Finance costs, including fair value (losses)/gains on derivative financial instruments	**(429.8)**	(226.5)
Net finance costs	**(426.9)**	(33.1)

[1] Other interest income comprises inter-company interest income from Anglian Water Services Holdings Limited of £nil (2018: £191.8 million).

[2] Hedge ineffectiveness on cash flow hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. Ineffectiveness results from fair value gains on derivatives in cash flow hedge relationships with ineffectiveness of £39.4 million offset by fair value losses on the related hedge risks of £36.0 million.

[3] Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £67.0 million (2018: £72.7 million), offset by fair value losses of £67.5 million on hedged risks (2018: £73.5 million).

9 Taxation

	2019 £m	2018 (Restated) £m
Current tax:		
In respect of the current period	**53.9**	44.8
Adjustments in respect of prior periods	**2.0**	(0.8)
Total current tax charge	**55.9**	44.0
Deferred tax:		
Origination and reversal of temporary differences	**(52.9)**	(10.7)
Adjustments in respect of prior periods	**(3.8)**	1.8
Reduction in corporation tax rate	**(4.3)**	(0.5)
Total deferred tax credit	**(61.0)**	(9.4)
Total tax (credit)/charge on (loss)/profit on continuing operations	**(5.1)**	34.6

The current tax charge for the year includes payments to other Group companies for losses surrendered from those companies and also reflects a charge on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the surplus advance corporation tax (ACT) asset held on the balance sheet.

The current and deferred tax adjustments in respect of previous periods for both 2019 and 2018 relate mainly to the agreement of prior-year tax computations.

The corporation tax rate will reduce from 19 per cent to 17 per cent effective from 1 April 2020. In 2018, to reflect reversals during the period to 31 March 2020, we used a composite rate of 17.07 per cent to re-measure the deferred tax balances. For 2019, we are not expecting any net temporary differences during the period to 31 March 2020 and therefore have used a rate of 17 per cent.

Notes to the Group financial statements continued

9 Taxation continued

The tax (credit)/charge on the Group's (loss)/profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2018: 19 per cent) to the (loss)/profit before tax from continuing operations as follows:

	2019 £m	2018 (Restated) £m
(Loss)/profit before tax from continuing operations	**(37.9)**	366.9
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(7.2)**	69.7
Effects of recurring items		
Items not deductible for tax purposes:		
- Depreciation and losses on assets not eligible for tax relief	**1.2**	0.7
- Disallowable expenditure	**0.7**	0.7
Items not taxable	**-**	(1.9)
	(5.3)	69.2
Effects of non-recurring items		
Profit on sale of business subject to statutory exemption	**-**	(0.9)
Group relief not paid for	**-**	(36.4)
Reduction in corporation tax rate	**(4.3)**	(0.5)
Effects of differences between rates of current and deferred tax	**6.3**	2.2
Adjustments in respect of prior periods	**(1.8)**	1.0
Tax (credit)/charge for the year	**(5.1)**	34.6

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

	2019 £m	2018 £m
Deferred tax:		
Defined benefit pension schemes	**(3.2)**	13.3
Cash flow hedges	**6.4**	3.1
Reduction in corporation tax rate – pension	**0.1**	-
Reduction in corporation tax rate – cash flow hedges	**0.1**	-
Total tax charge recognised in other comprehensive income	**3.4**	16.4

10 Employee information and Directors' emoluments

(a) Employee information

	2019 £m	2018 £m
Staff costs for the Group		
Wages and salaries	**182.5**	171.2
Social security costs	**18.4**	16.4
Pension costs – defined contribution (see note 24)	**16.9**	8.6
Pension costs – defined benefit current service cost (see note 24)	**-**	9.6
Pension costs – defined benefit past service cost (see note 24)	**3.3**	-
	221.1	205.8

Staff costs for the year ended 31 March 2019 include £48.7 million (2018: £48.0 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors):

	2019	2018
Water Services	**854**	776
Water Recycling Services	**1,563**	1,554
Customer Services	**498**	505
Asset Management and Other	**1,849**	1,765
	4,764	4,600

(b) Directors' emoluments

	2019 £'000	2018 £'000
Aggregate emoluments	**1,857**	2,562
Benefits received under long-term incentive plans	**1,521**	1,159

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2018: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2018: four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited group undertakings.

(c) Highest paid Director

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £nil (2018: £6,868). More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 117.

	2019 £'000	2018 £'000
Highest paid Director's emoluments	**704**	713
Highest paid Director's amounts received under long-term incentive schemes	**803**	466

11 (Loss)/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 loss for the year, dealt with in the financial statements of the Company, is £(33.3) million (2018: profit £331.9 million).

Notes to the Group financial statements continued

12 Dividends

	2019 £m	2018 £m
Dividends available for distribution to investors in the ultimate parent company		
Paid by the Group:		
Previous year final dividend	**68.0**	61.1
Current year interim dividend	**-**	25.0
	68.0	86.1
Dividends not available for distribution to investors in the ultimate parent company		
Dividend paid by the Company in order to service internal interest	**-**	191.8
One-off dividend paid by the Company in order to settle an inter-company loan	**-**	1,602.6
Special dividend to fund the transfer of the non-household retail business	**-**	62.2

Dividends described as 'not available for distribution to investors in the ultimate parent company' are primarily those arising from the structure of the Group and ceased with effect from 31 March 2018.

Anglian Water Services Holdings Limited (AWSH) 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 and which also includes Anglian Water Services UK Parent Co Limited and Anglian Water Services Financing Plc, protects customers and our debt providers from risks associated with other Anglian Water Group companies outside of the Anglian Water Services regulated 'ring fence'. This strengthens Anglian Water Services Limited's credit profile and credit ratings, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills. As part of establishing the structure, an inter-company loan of £1,609.1 million was put in place between Anglian Water Services Limited and AWSH, £6.5 million of which was repaid during the year ended 31 March 2012 and the remainder of which was repaid in full in March 2018 in order to simplify the Group structure.

A dividend of £nil (2018: £191.8 million) was paid to AWSH, in order for AWSH to service the interest payable to the Company on the inter-company loan of £nil (2018: £1,602.6 million) mentioned above. These dividends did not leave the Anglian Water Services regulatory ring-fenced group.

On 29 March 2018, following our commitment to simplify our corporate structure, a one-off restructuring dividend of £1,602.6 million was paid by Anglian Water Services Limited, which flowed up to AWSH in order for AWSH to repay the inter-company loan. The funds flowed back to Anglian Water Services Limited on the same day AWSH settled the loan.

From 1 April 2018, following the settlement of the £1,602.6 million inter-company loan, the inter-company interest and dividend payments were no longer necessary.

On 3 April 2017, the Company paid a special dividend of £62.2 million to help fund the statutory transfer of the non-household retail business from Anglian Water Services Limited to Anglian Water Business (National) Limited. These funds were not available for distribution to investors in the ultimate parent company.

The Directors have proposed a final dividend for the year ended 31 March 2019 of £2.12 per share, which is a total of £67.8 million. This distribution has not been accounted for within the 2019 financial statements as it was proposed and approved after the year end.

13 Intangible assets

	Group and Company		
	Computer software £m	Internally generated other £m	Total £m
Cost			
At 1 April 2017	396.9	72.5	**469.4**
Additions	45.7	20.7	**66.4**
Disposals	(101.8)	-	**(101.8)**
At 31 March 2018	**340.8**	**93.2**	**434.0**
Additions	49.4	19.9	**69.3**
Disposals	(0.9)	-	**(0.9)**
At 31 March 2019	**389.3**	**113.1**	**502.4**
Accumulated amortisation			
At 1 April 2017	(298.2)	(31.8)	**(330.0)**
Charge for the year	(23.5)	(14.0)	**(37.5)**
Disposals	101.8	-	**101.8**
At 31 March 2018	**(219.9)**	**(45.8)**	**(265.7)**
Charge for the year	(23.0)	(17.3)	**(40.3)**
Disposals	0.9	-	**0.9**
At 31 March 2019	**(242.0)**	**(63.1)**	**(305.1)**
Net book amount			
At 31 March 2019	**147.3**	**50.0**	**197.3**
At 31 March 2018	120.9	47.4	168.3

Internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.6 million (2018: £2.0 million) of interest that has been capitalised on qualifying assets at an average rate of 5.5 per cent (2018: 5.0 per cent).

Included within intangible assets above are assets under construction of £89.0 million (2018: £61.4 million), which are not yet subject to amortisation.

The continual development of our IT infrastructure and software resulted in the disposal during the year of intangible assets with original cost and accumulated amortisation of £0.9 million (£nil net book value) (2018: £101.8 million [£nil net book value]).

Notes to the Group financial statements continued

14 Property, plant and equipment

	Group and Company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2017 (as previously reported)	46.9	6,566.4	5,698.7	821.5	319.0	**13,452.5**
Change in accounting policy – IFRS 15	-	5.5	-	-	-	**5.5**
At 1 April 2017 (restated)	46.9	6,571.9	5,698.7	821.5	319.0	**13,458.0**
Additions (restated)	-	1.7	-	-	437.6	**439.3**
Transfers on commissioning	0.1	130.2	130.9	45.1	(306.3)	**-**
Disposals	(0.1)	(2.7)	(31.9)	(67.4)	-	**(102.1)**
At 31 March 2018 (restated)	**46.9**	**6,701.1**	**5,797.7**	**799.2**	**450.3**	**13,795.2**
Additions	-	-	-	-	415.2	**415.2**
Transfers on commissioning	3.1	154.5	247.8	51.5	(456.9)	**-**
Disposals	(0.1)	-	(11.2)	(11.6)	-	**(22.9)**
At 31 March 2019	**49.9**	**6,855.6**	**6,034.3**	**839.1**	**408.6**	**14,187.5**
Accumulated depreciation						
At 1 April 2017 (as previously reported)	(6.9)	(616.2)	(2,753.4)	(558.3)	-	**(3,934.8)**
Change in accounting policy – IFRS 15	-	(0.1)	-	-	-	**(0.1)**
At 1 April 2017 (restated)	(6.9)	(616.3)	(2,753.4)	(558.3)	-	**(3,934.9)**
Charge for the year (restated)[1]	(0.4)	(56.4)	(192.1)	(49.2)	-	**(298.1)**
Disposals	-	2.7	31.9	66.9	-	**101.5**
At 31 March 2018 (restated)	**(7.3)**	**(670.0)**	**(2,913.6)**	**(540.6)**	**-**	**(4,131.5)**
Charge for the year[1]	(0.4)	(55.6)	(202.5)	(50.0)	-	**(308.5)**
Disposals	0.1	-	11.2	11.4	-	**22.7**
At 31 March 2019	**(7.6)**	**(725.6)**	**(3,104.9)**	**(579.2)**	**-**	**(4,417.3)**
Net book amount						
At 31 March 2019	**42.3**	**6,130.0**	**2,929.4**	**259.9**	**408.6**	**9,770.2**
At 31 March 2018	39.6	6,031.1	2,884.1	258.6	450.3	9,663.7

[1] The depreciation charge for 2019 includes £0.5 million (2018: £10.7 million) in respect of the write-off of redundant plant and equipment.

Property, plant and equipment at 31 March 2019 includes land of £27.7 million (2018: £27.4 million) that is not subject to depreciation.

Included within additions above is £18.0 million (2018: £14.5 million) of interest that has been capitalised on qualifying assets at an average rate of 5.5 per cent (2018: 5.0 per cent).

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:

	2019 £m	2018 £m
Net book amount at 31 March	**44.7**	46.6

15 Investments

	Loan to parent company £m	Total £m
Cost		
At 1 April 2017	**1,602.6**	**1,602.6**
Cash received in settlement	(1,602.6)	(1,602.6)
At 31 March 2018 and at 31 March 2019	**-**	**-**

On 29 March 2018 the loan of £1,602.6 million made by the Company to Anglian Water Services Holdings Limited was settled in full. The loan was settled earlier than the due date in order to simplify the Group structure and to remove the associated round-trip interest charge and dividend payments in future years. Interest on the loan was charged up to the settlement date at the rate of 12 per cent per annum.

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2019. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

16 Inventories

	Group and Company	
	2019 £m	2018 £m
Raw materials and consumables	**11.6**	10.0
	11.6	10.0

17 Trade and other receivables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade receivables	**345.5**	335.8	**345.5**	335.8
Provision for impairment	**(193.3)**	(183.1)	**(193.3)**	(183.1)
Net trade receivables	**152.2**	152.7	**152.2**	152.7
Amounts owed by other Anglian Water Group Limited group undertakings	**0.3**	0.4	**0.3**	0.4
Other amounts receivable	**17.4**	15.5	**17.4**	15.5
Prepayments and accrued income	**315.8**	310.3	**315.8**	310.3
	485.7	478.9	**485.7**	478.9

Prepayments and accrued income as at 31 March 2019 includes water and sewerage income not yet billed of £307.3 million (2018: £302.0 million). Of the £345.5 million trade receivables, £330.7 million relates to residential customers, £4.5 million relates to legacy non-household customer balances retained following market reform and the remaining £10.3 million relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

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

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water Services customer base consisting of a large number of unrelated households. 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.

Following the introduction of market reform on 1 April 2017, the provision of water and waste water services to non-household customers was transferred to a number of licensed retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month; therefore, the credit risk relating to non-household customers is limited to one month's revenue. The principal retailer that Anglian Water transacts with is Wave Limited, with £18.6 million of income accrued at 31 March 2019.

Notes to the Group financial statements continued

17 Trade and other receivables continued

The movement in the impairment for trade receivables, all of which relates to trade receivables, was as follows:

	Group and Company 2019 £m	Group and Company 2018 £m
Provision for impairment at the beginning of the year	**183.1**	185.3
Charge for impairment	**26.5**	28.9
Amounts written off during the year	**(16.3)**	(31.1)
At 31 March	**193.3**	183.1

Included in trade receivables are balances with a carrying amount of £108.3 million (2018: £108.2 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.

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

	Group and Company 2019 £m	Group and Company 2018 £m
Within one year	**74.9**	74.3
Between one and two years	**16.0**	16.5
Between two and three years	**7.8**	8.3
Between three and four years	**3.1**	3.2
After four years	**6.5**	5.9
	108.3	108.2

At 31 March 2019 and 31 March 2018, the Group had no trade receivables that were individually impaired.

18 Cash and cash flow

Analysis of net debt	Group				
			Liabilities from financing activities		
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments[1] £m	Net debt £m
At 1 April 2017	354.8	75.0	(6,474.9)	(766.8)	**(6,811.9)**
Cash flows					
Interest paid	(215.9)	-	25.6	1.8	**(188.5)**
Debt issue costs paid	(1.7)	-	1.7	-	**-**
Interest element of finance lease rental payments	(0.8)	-	-	-	**(0.8)**
Increase in amounts borrowed	248.6	-	(248.6)	-	**-**
Repayment of amounts borrowed	(247.7)	-	247.7	-	**-**
Repayment of accreted interest on derivatives	(73.9)	-	-	73.9	**-**
Capital element of finance lease rental payments	(5.7)	-	5.7	-	**-**
Decrease in short-term bank deposits	35.0	(35.0)	-	-	**-**
Non-financing cash flows[2]	154.4	-	-	-	**154.4**
	(107.7)	(35.0)	32.1	75.7	**(34.9)**
Movement in interest accrued on debt	-	-	1.6	(2.3)	**(0.7)**
Amortisation of issue costs	-	-	(3.4)	-	**(3.4)**
Indexation of borrowings and RPI swaps	-	-	(110.3)	(26.2)	**(136.5)**
Fair value gains and losses	-	-	48.8	(12.2)	**36.6**
Exchange movements	-	-	54.4	-	**54.4**
Other non-cash movements	-	-	-	-	**-**
At 1 April 2018	247.1	40.0	(6,451.7)	(731.8)	**(6,896.4)**

Analysis of net debt continued

	Group				
			Liabilities from financing activities		
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments[1] £m	Net debt £m
At 1 April 2018	247.1	40.0	(6,451.7)	(731.8)	**(6,896.4)**
Cash flows					
Interest paid	(215.8)	-	34.9	3.5	**(177.4)**
Debt issue costs paid	(3.3)	-	3.3	-	**-**
Interest element of finance lease rental payments	(0.6)	-	-	-	**(0.6)**
Increase in amounts borrowed	447.8	-	(450.1)	-	**(2.3)**
Repayment of amounts borrowed	(140.0)	-	140.0	-	**-**
Repayment of principal on derivatives	27.0	-	-	(27.0)	**-**
Capital element of finance lease rental payments	(6.2)	-	6.2	-	**-**
Increase in short-term bank deposits	(257.0)	257.0	-	-	**-**
Proceeds from issue of shares	22.0	-	-	-	**22.0**
Non-financing cash flows[2]	136.3	-	-	-	**136.3**
	10.2	257.0	(265.7)	(23.5)	**(22.0)**
Movement in interest accrued on debt	-	-	(5.4)	-	**(5.4)**
Issue costs relating to new borrowings	-	-	2.1	-	**2.1**
Amortisation of issue costs	-	-	(3.7)	-	**(3.7)**
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	**(129.6)**
Fair value gains and losses	-	-	(48.1)	7.7	**(40.4)**
Exchange movements	-	-	(64.4)	-	**(64.4)**
At 31 March 2019	257.3	297.0	(6,934.6)	(779.5)	**(7,159.8)**
Net debt at 31 March 2019 comprises:					
Non-current assets	-	-	-	190.5	**190.5**
Current assets	257.3	297.0	-	20.2	**574.5**
Current liabilities	-	-	(315.0)	(11.7)	**(326.7)**
Non-current liabilities	-	-	(6,619.6)	(978.5)	**(7,598.1)**
	257.3	297.0	(6,934.6)	(779.5)	**(7,159.8)**

[1] Derivative financial instruments exclude the liability of £1.0 million (2018: £9.1 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

[2] Non-financing cash flows comprise net cash flows from operating activities of £670.5 million (2018: £667.3 million), less net cash used in investing activities of £466.2 million (2018: net cash received from investing activities of £1,430.3 million) and dividends paid of £68.0 million (2018: £1,943.2 million).

Energy hedges, excluded from net debt, are included within derivative financial instruments as follows:

	2019 £m	2018 £m
Non-current assets	**5.1**	0.9
Current assets	**0.1**	0.6
Current liabilities	**(4.3)**	(3.9)
Non-current liabilities	**(1.9)**	(6.7)
	(1.0)	(9.1)

Notes to the Group financial statements continued

18 Cash and cash flow continued

Analysis of net debt	Company: Cash and cash equivalents £m	Financial investments £m	Liabilities from financing activities: Borrowings £m	Liabilities from financing activities: Derivative financial instruments[1] £m	Net debt £m
At 1 April 2017	353.1	75.0	(6,474.9)	(766.8)	**(6,813.6)**
Cash flows					
Interest paid	(215.9)	-	25.6	1.8	**(188.5)**
Debt issue costs paid	(1.7)	-	1.7	-	**-**
Interest element of finance lease rental payments	(0.8)	-	-	-	**(0.8)**
Increase in amounts borrowed	248.6	-	(248.6)	-	**-**
Repayment of amounts borrowed	(247.7)	-	247.7	-	**-**
Repayment of accreted interest on derivatives	(73.9)	-	-	73.9	**-**
Capital element of finance lease rental payments	(5.7)	-	5.7	-	**-**
Decrease in short-term bank deposits	35.0	(35.0)	-	-	**-**
Non-financing cash flows[2]	154.4	-	-	-	**154.4**
	(107.7)	(35.0)	32.1	75.7	**(34.9)**
Movement in interest accrued on debt	-	-	1.6	(2.3)	**(0.7)**
Amortisation of issue costs	-	-	(3.4)	-	**(3.4)**
Indexation of borrowings and RPI swaps	-	-	(110.3)	(26.2)	**(136.5)**
Fair value gains and losses	-	-	48.8	(12.2)	**36.6**
Exchange movements	-	-	54.4	-	**54.4**
Other non-cash movements	-	-	-	-	**-**
At 1 April 2018	245.4	40.0	(6,451.7)	(731.8)	**(6,898.1)**
Cash flows					
Interest paid	(215.8)	-	34.9	3.5	**(177.4)**
Debt issue costs paid	(3.3)	-	3.3	-	**-**
Interest element of finance lease rental payments	(0.6)	-	-	-	**(0.6)**
Increase in amounts borrowed	447.8	-	(450.1)	-	**(2.3)**
Repayment of amounts borrowed	(140.0)	-	140.0	-	**-**
Repayment of principal on derivatives	27.0	-	-	(27.0)	**-**
Capital element of finance lease rental payments	(6.2)	-	6.2	-	**-**
Increase in short-term bank deposits	(257.0)	257.0	-	-	**-**
Proceeds from issue of shares	22.0	-	-	-	**22.0**
Non-financing cash flows[2]	136.2	-	-	-	**136.2**
	10.1	257.0	(265.7)	(23.5)	**(22.1)**
Movement in interest accrued on debt	-	-	(5.4)	-	**(5.4)**
Issue costs relating to new borrowings	-	-	2.1	-	**2.1**
Amortisation of issue costs	-	-	(3.7)	-	**(3.7)**
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	**(129.6)**
Fair value gains and losses	-	-	(48.1)	7.7	**(40.4)**
Exchange movements	-	-	(64.4)	-	**(64.4)**

Analysis of net debt	Company				
			Liabilities from financing activities		
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments[1] £m	**Net debt £m**
At 31 March 2019	255.5	297.0	(6,934.6)	(779.5)	**(7,161.6)**
Net debt at 31 March 2019 comprises:					
Non-current assets	-	-	-	190.5	**190.5**
Current assets	255.5	297.0	-	20.2	**572.7**
Current liabilities	-	-	(315.0)	(11.7)	**(326.7)**
Non-current liabilities	-	-	(6,619.6)	(978.5)	**(7,598.1)**
	255.5	297.0	(6,934.6)	(779.5)	**(7,161.6)**

[1] Derivative financial instruments exclude the liability of £1.0 million (2018: £9.1 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

[2] Non-financing cash flows comprise net cash flows from operating activities of £670.5 million (2018: £667.3 million), less net cash used in investing activities of £466.3 million (2018: net cash from investing activities of £1,430.3 million) and dividends paid of £68.0 million (2018: £1,943.2 million).

19 Trade and other payables

	Group		Company	
	2019 £m	2018 (Restated) £m	**2019 £m**	2018 (Restated) £m
Current				
Trade payables	**28.9**	29.7	**28.9**	29.7
Capital creditors and accruals	**87.9**	115.6	**87.9**	115.6
Amounts owed to other Anglian Water Group Limited group undertakings	**0.8**	0.1	**47.4**	46.4
Receipts in advance	**299.6**	292.9	**299.6**	292.9
Other taxes and social security	**4.5**	4.3	**4.5**	4.3
Accruals and deferred income	**70.3**	69.6	**70.4**	69.6
	492.0	512.2	**538.7**	558.5

Receipts in advance includes £254.2 million (2018: £252.9 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report.

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

Notes to the Group financial statements continued

20 Loans and other borrowings

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
£250 million 5.837% fixed rate 2022	**258.8**	258.5	**258.8**	258.5
£200 million 6.875% fixed rate 2023	**208.4**	208.4	**208.4**	208.4
£200 million 6.625% fixed rate 2029	**202.8**	202.7	**202.8**	202.7
£246 million 6.293% fixed rate 2030	**255.5**	254.1	**255.5**	254.1
£150 million 4.125% index-linked 2020	**257.5**	249.3	**257.5**	249.3
£75 million 3.666% index-linked 2024	**122.3**	118.3	**122.3**	118.3
£200 million 3.07% index-linked 2032	**323.9**	313.4	**323.9**	313.4
£60 million 3.07% index-linked 2032	**98.2**	95.2	**98.2**	95.2
Finance leases	**21.4**	27.8	**21.4**	27.8
£402 million 2.4% index-linked 2035	**609.3**	590.4	**609.3**	590.4
£50 million 1.7% index-linked 2046	**72.7**	70.4	**72.7**	70.4
£50 million 1.7% index-linked 2046	**72.9**	70.5	**72.9**	70.5
£40 million 1.7146% indexation bond 2056	**58.6**	56.8	**58.6**	56.8
£50 million 1.6777% indexation bond 2056	**73.3**	71.0	**73.3**	71.0
£60 million 1.7903% indexation bond 2049	**87.8**	85.1	**87.8**	85.1
£100 million 1.3784% indexation bond 2057	**146.0**	141.2	**146.0**	141.2
£50 million 1.3825% indexation bond 2056	**73.0**	70.6	**73.0**	70.6
£100 million Class A wrapped floating rate bonds	**100.1**	100.0	**100.1**	100.0
£75 million 1.449% indexation bond 2062	**103.8**	100.1	**103.8**	100.1
£50 million 1.52% indexation bond 2055	**69.2**	66.7	**69.2**	66.7
JPY 15 billion 2.925% fixed rate bond 2018/2037[1]	**-**	103.1	**-**	103.1
£110 million Class A unwrapped floating rate bonds 2043	**110.1**	110.1	**110.1**	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038[1]	**33.6**	35.2	**33.6**	35.2
£25 million 6.875% private placements 2034	**25.0**	25.0	**25.0**	25.0
EIB £50 million 1.626% index-linked term facility 2019	**67.2**	65.4	**67.2**	65.4
EIB £50 million 1.3% index-linked term facility 2020	**66.2**	64.2	**66.2**	64.2
£130 million 2.262% indexation bond 2045	**168.0**	163.0	**168.0**	163.0
US$160 million 4.52% private placements 2021	**127.7**	118.7	**127.7**	118.7
US$410 million 5.18% private placements 2021	**318.6**	296.9	**318.6**	296.9
EIB £75 million 0.53% index-linked term facility 2027[2]	**71.9**	78.6	**71.9**	78.6
EIB £75 million 0.79% index-linked term facility 2027[2]	**71.9**	78.6	**71.9**	78.6
£250 million 4.5% fixed rate 2027	**252.4**	252.1	**252.4**	252.1
£15 million 1.37% index-linked private placements 2022	**17.6**	17.1	**17.6**	17.1
£50 million 2.05% index-linked private placements 2033	**59.0**	57.3	**59.0**	57.3
£31.9 million 3.983% private placements 2022	**32.4**	32.4	**32.4**	32.4
£73.3 million 4.394% private placements 2028	**76.2**	74.8	**76.2**	74.8
£22.3 million 3.983% private placements 2022	**22.7**	22.6	**22.7**	22.6
US$47 million 5% private placements 2022	**36.9**	34.2	**36.9**	34.2
Sub-total	**4,772.9**	4,779.8	**4,772.9**	4,779.8

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
EIB £150 million 0% index-linked term facility 2028[3]	**157.0**	169.5	**157.0**	169.5
£200 million Class B 4.5% fixed rate 2026	**207.2**	206.1	**207.2**	206.1
£35 million 1.141% index-linked bond 2042	**40.3**	39.2	**40.3**	39.2
US$170 million 3.84% private placements 2023	**135.7**	123.5	**135.7**	123.5
£93 million 3.537% private placements 2023	**94.2**	94.2	**94.2**	94.2
US$160 million 4.99% private placements 2023	**124.4**	115.6	**124.4**	115.6
EIB £65 million 0.41% index-linked term facility 2029	**73.4**	71.3	**73.4**	71.3
EIB Tranche 2 £125 million 0.1% 2029[4]	**139.6**	135.8	**139.6**	135.8
EIB Tranche 3 £60 million 0.01% 2030[5]	**66.7**	64.9	**66.7**	64.9
RCF £500 million	**(1.1)**	(2.0)	**(1.1)**	(2.0)
RCF £100 million bilaterals	**-**	(0.1)	**-**	(0.1)
US$150 million 3.29% private placements 2026	**113.9**	102.9	**113.9**	102.9
£55 million 2.93% fixed rate private placements 2026	**55.3**	54.8	**55.3**	54.8
£20 million 2.93% fixed rate private placements 2026	**20.0**	20.0	**20.0**	20.0
£35 million floating rate private placements 2031	**34.7**	34.5	**34.7**	34.5
£200 million Class B 2.6225% fixed rate 2027	**199.9**	197.3	**199.9**	197.3
£250 million Green Bond 1.625% 2025	**250.6**	244.4	**250.6**	244.4
£300 million Green bond 2.75% 2029	**299.4**	-	**299.4**	-
£25 million 3.0% fixed rate 2031	**25.0**	-	**25.0**	-
US$53 million 3.053% fixed rate 2029	**40.8**	-	**40.8**	-
£85 million 2.88% fixed rate 2029	**85.0**	-	**85.0**	-
£65 million 2.87% fixed rate 2029	**(0.3)**	-	**(0.3)**	-
£65 million CPI 0.835% 2040	**(0.4)**	-	**(0.4)**	-
Liquidity facility	**0.4**	-	**0.4**	-
Total loans and other borrowings	**6,934.6**	6,451.7	**6,934.6**	6,451.7
Included in:				
Current liabilities	**315.0**	220.0	**315.0**	220.0
Non-current liabilities	**6,619.6**	6,231.7	**6,619.6**	6,231.7
	6,934.6	6,451.7	**6,934.6**	6,451.7

[1] 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. These notes have been called in line with the terms at issue and therefore have already redeemed or will redeem at the earlier date quoted.

[2] These instruments are amortising from 2017 until the date of maturity shown.

[3] This instrument is amortising from 2018 until the date of maturity shown.

[4] This instrument is amortising from 2019 until the date of maturity shown.

[5] These instruments are amortising from 2020 until the date of maturity shown.

Notes to the Group financial statements continued

20 Loans and other borrowings continued

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £97.7 million (2018: £110.3 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs of £32.5 million (2018: £30.7 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.

A security agreement, dated 30 July 2002, was made between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme), under which a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Co Limited. At 31 March 2019, this charge applies to £6,934.6 million (2018: £6,451.7 million) of the debt listed above.

With the exception of issue costs capitalised and the finance leases, all of the Company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the Group. The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Carrying value £m	Proportion hedged %	Accumulated hedge adjustments[3] £m	Discounted hedge adjustments £m
March 2019				
US$150 million 3.29% private placements 2026	**113.9**	**76**	**1.9**	**-**
US$160 million 4.52% private placements 2021	**127.7**	**100**	**(3.6)**	**-**
US$170 million 3.84% private placements 2023	**135.7**	**94**	**(3.5)**	**-**
£200 million Class B 2.6225% fixed rate 2027	**199.9**	**41**	**(0.2)**	**-**
£200 million Class B 4.5% fixed rate 2026	**207.2**	**50**	**(8.1)**	**-**
£246 million 6.293% fixed rate 2030	**255.5**	**20**	**(0.8)**	**-**
£250 million Green Bond 1.625% 2025	**250.6**	**100**	**(0.5)**	**-**
JPY 5 billion 3.22% fixed rate bond 2019/2038[1]	**33.6**	**100**	**1.4**	**0.1**
£73.3 million 4.394% private placements 2028	**76.2**	**100**	**(1.4)**	**-**
US$410 million 5.18% private placements 2021[2]	**318.6**	**-**	**0.4**	**0.4**
Total	**1,718.9**		**(14.4)**	**0.5**

1 This discontinued hedge balance relates to the novation of swaps within the relationship from one bank to another. No economic terms were changed.
2 This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015, resulting in the discontinued balance.
3 The movement in the accumulated hedge adjustment is shown within fair value gains and losses in the income statement.

21 Financial instruments

Financial assets by category	Group				
	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 2019					
Investments					
Current	**-**	**-**	**-**	**297.0**	**297.0**
Cash and cash equivalents					
Current	**-**	**-**	**257.3**	**-**	**257.3**
Trade and other receivables					
Current	**-**	**-**	**477.2**	**-**	**477.2**
Derivative financial instruments					
Current	**-**	**20.3**	**-**	**-**	**20.3**
Non-current	**42.4**	**153.2**	**-**	**-**	**195.6**
	42.4	**173.5**	**734.5**	**297.0**	**1,247.4**
At 31 March 2018					
Investments					
Current	-	-	-	40.0	40.0
Cash and cash equivalents					
Current	-	-	247.1	-	247.1
Trade and other receivables					
Current	-	-	470.6	-	470.6
Derivative financial instruments					
Current	2.5	46.0	-	-	48.5
Non-current	7.6	82.0	-	-	89.6
	10.1	128.0	717.7	40.0	895.8

Notes to the Group financial statements continued

21 Financial instruments continued

Financial assets by category	Company				
	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 2019					
Investments					
Current	**-**	**-**	**-**	**297.0**	**297.0**
Cash and cash equivalents					
Current	**-**	**-**	**255.5**	**-**	**255.5**
Trade and other receivables					
Current	**-**	**-**	**477.2**	**-**	**477.2**
Derivative financial instruments					
Current	**-**	**20.3**	**-**	**-**	**20.3**
Non-current	**42.4**	**153.2**	**-**	**-**	**195.6**
	42.4	**173.5**	**732.7**	**297.0**	**1,245.6**
At 31 March 2018					
Investments					
Current	-	-	-	40.0	40.0
Cash and cash equivalents					
Current	-	-	245.4	-	245.4
Trade and other receivables					
Current	-	-	470.6	-	470.6
Derivative financial instruments					
Current	2.5	46.0	-	-	48.5
Non-current	7.6	82.0	-	-	89.6
	10.1	128.0	716.0	40.0	894.1

Trade and other receivables above exclude prepayments.

Financial liabilities by category	Group			
	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 2019				
Borrowings				
Current	**-**	**-**	**315.0**	**315.0**
Non-current	**-**	**-**	**6,619.6**	**6,619.6**
Trade and other payables				
Current	**-**	**-**	**192.4**	**192.4**
Derivative financial instruments				
Current	**12.5**	**3.5**	**-**	**16.0**
Non-current	**960.7**	**19.7**	**-**	**980.4**
	973.2	**23.2**	**7,127.0**	**8,123.4**
At 31 March 2018				
Borrowings				
Current	-	-	220.0	220.0
Non-current	-	-	6,231.7	6,231.7
Trade and other payables				
Current	-	-	219.3	219.3
Derivative financial instruments				
Current	14.7	1.7	-	16.4
Non-current	755.9	106.7	-	862.6
	770.6	108.4	6,671.0	7,550.0

Financial liabilities by category	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 2019				
Borrowings				
Current	**-**	**-**	**315.0**	**315.0**
Non-current	**-**	**-**	**6,619.6**	**6,619.6**
Trade and other payables				
Current	**-**	**-**	**239.1**	**239.1**
Derivative financial instruments				
Current	**12.5**	**3.5**	**-**	**16.0**
Non-current	**960.7**	**19.7**	**-**	**980.4**
	973.2	**23.2**	**7,173.7**	**8,170.1**
At 31 March 2018				
Borrowings				
Current	-	-	220.0	220.0
Non-current	-	-	6,231.7	6,231.7
Trade and other payables				
Current	-	-	265.6	265.6
Derivative financial instruments				
Current	14.7	1.7	-	16.4
Non-current	755.9	106.7	-	862.6
	770.6	108.4	6,717.3	7,596.3

Trade and other payables above exclude receipts in advance.

Notes to the Group financial statements continued

21 Financial instruments continued

Derivative financial instruments	Group and Company 2019 Assets £m	2019 Liabilities £m	2018 Assets £m	2018 Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	**-**	**(17.0)**	-	(96.7)
Cross currency interest rate swaps	**85.0**	**-**	38.9	(1.2)
Energy swaps	**5.2**	**(6.2)**	-	-
	90.2	**(23.2)**	38.9	(97.9)
Designated as fair value hedges				
Interest rate swaps	**13.1**	**-**	8.9	(7.7)
Cross currency interest rate swaps	**70.2**	**-**	80.2	(2.7)
	83.3	**-**	89.1	(10.4)
Derivative financial instruments designated as hedges	**173.5**	**(23.2)**	128.0	(108.3)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**11.7**	**(225.1)**	8.6	(221.4)
RPI swaps	**-**	**(607.0)**	-	(538.7)
CPI swaps	**30.7**	**(141.1)**	-	-
Energy swaps	**-**	**-**	1.5	(10.6)
Total derivative financial instruments	**215.9**	**(996.4)**	138.1	(879.0)
Derivative financial instruments can be analysed as follows:				
Current	**20.3**	**(16.0)**	48.5	(16.4)
Non-current	**195.6**	**(980.4)**	89.6	(862.6)
	215.9	**(996.4)**	138.1	(879.0)

At 31 March 2019 the fixed interest rates vary from 2.84 per cent to 5.99 per cent, floating rates vary from 0.85 per cent (LIBOR plus 0.00 bp) to 3.94 per cent (LIBOR plus 298.70 bp), RPI-linked interest rates vary from 0.81 per cent plus RPI to 2.97 per cent plus RPI and CPI-linked interest rates vary from (0.90) per cent plus CPI to 1.69 per cent plus CPI. 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 operating 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 IFRS 9, 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 period ended 31 March 2019 (2018: £nil).

Finance leases

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

	Group and Company 2019 £m	2018 £m
Within one year	**6.7**	6.5
Between one and five years	**15.0**	22.1
After five years	**-**	0.4
	21.7	29.0
Future finance charges on finance leases	**(0.3)**	(1.2)
Present value of finance lease liabilities	**21.4**	27.8

Fair value of financial assets and liabilities	Group 2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Cash and cash equivalents	**257.3**	**257.3**	247.1	247.1
Current asset investments	**297.0**	**297.0**	40.0	40.0
Borrowings				
Current	**(315.0)**	**(315.8)**	(220.0)	(222.6)
Non-current	**(6,619.6)**	**(8,316.2)**	(6,231.7)	(7,687.6)
Derivative financial instruments				
Current	**16.7**	**16.7**	43.7	43.7
Non-current	**(78.8)**	**(78.8)**	(236.9)	(236.9)
RPI swaps				
Current	**(8.1)**	**(8.1)**	(8.4)	(8.4)
Non-current	**(598.9)**	**(598.9)**	(530.2)	(530.2)
CPI swaps				
Non-current	**(110.4)**	**(110.4)**	-	-
Net debt	**(7,159.8)**	**(8,857.2)**	(6,896.4)	(8,354.9)
Energy hedging derivatives	**(1.0)**	**(1.0)**	(9.1)	(9.1)
	(7,160.8)	**(8,858.2)**	(6,905.5)	(8,364.0)

Fair value of financial assets and liabilities	Company 2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Cash and cash equivalents	**255.5**	**255.5**	245.4	245.4
Current asset investments	**297.0**	**297.0**	40.0	40.0
Borrowings				
Current	**(315.0)**	**(315.8)**	(220.0)	(222.6)
Non-current	**(6,619.6)**	**(8,316.2)**	(6,231.7)	(7,687.6)
Derivative financial instruments				
Current	**16.7**	**16.7**	43.7	43.7
Non-current	**(78.8)**	**(78.8)**	(236.9)	(236.9)
RPI swaps				
Current	**(8.1)**	**(8.1)**	(8.4)	(8.4)
Non-current	**(598.9)**	**(598.9)**	(530.2)	(530.2)
CPI swaps				
Non-current	**(110.4)**	**(110.4)**	-	-
Net debt	**(7,161.6)**	**(8,859.0)**	(6,898.1)	(8,356.6)
Energy hedging derivatives	**(1.0)**	**(1.0)**	(9.1)	(9.1)
	(7,162.6)	**(8,860.0)**	(6,907.2)	(8,365.7)

Notes to the Group financial statements continued

21 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 publicly 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 fair value of cross currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as 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.

Fair values of 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. 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 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 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked swaps where inputs are obtained from a liquid market. In both cases the estimated future cash flows have been discounted at a rate that reflects credit risk.

Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI-linked inflation swaps, which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market, and as such these swaps have been classified as level 3 instruments.

Movements in the year ended 31 March for assets and liabilities measured at fair value using level 3 valuation inputs are presented below.

	2019 £m
At the beginning of the period	-
Net loss for the period	(110.4)
Settlements	-
At the end of the period	**(110.4)**

The impact on a post-tax basis of reasonably possible changes in the significant assumptions used in valuing liabilities classified as level 3 within the fair value hierarchy are as follows:

	2019 £m
Gain/(loss)	
1% increase in interest rates	47.6
1% decrease in interest rates	(60.3)
1% increase in inflation rates	(152.4)
1% decrease in inflation rates	126.0

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Control of Treasury

The Treasury team, which reports directly to the Managing Director of Finance and Non-Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange, for the Group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group. The Treasury functions' activities include the following:

- ensuring that lenders' covenants are met
- securing funds through a balanced approach to financial markets and maturities
- managing interest rates to minimise financial exposures and minimise interest costs
- investing temporary surplus cash to best advantage at minimal financial risk
- maintaining an excellent reputation with providers of finance and rating agencies
- promoting management techniques and systems
- enhancing control of financial resources
- monitoring counterparty credit exposure.

Financing structure

The Group's regulated water and water recycling business, Anglian Water Services Limited (AWSL), is funded predominantly by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2019 AWSL's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of AWSL's regulated capital value) was 78.1 per cent (2018: 78.1 per cent).

Borrowing covenants

All of the Anglian Water Services Group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing Group, which comprises Anglian Water Services Holdings Limited, Anglian Water Services UK Parent Co Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

The Treasury function monitors compliance against all financial obligations, and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in October 2018, and treasury matters are reported to the Board each month.

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

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

The Group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy. These transactions hedge risks to which the Group is exposed as follows:

(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.

Where exposures arise out of debt issuances in currencies other than sterling, this risk is hedged using cross currency interest rate swaps on the date the debt issuance is contracted. The Group assesses the economic relationship by comparing the currency cash flows on the underlying debt instrument with the currency cash flows on the hedge to ensure an exact offset of the specific foreign currency flows of the debt is achieved. This results in a notional hedge ratio of one for all foreign currency hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as detailed in the following table:

Notes to the Group financial statements continued

21 Financial instruments continued

(i) Foreign currency (continued)

	Group and Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2019					
Foreign currency borrowings – Hedged item					
JPY	5,000.0	-	-	-	**5,000.0**
USD	-	947.0	203.0	-	**1,150.0**
EUR	-	-	-	-	**-**
Cross currency interest rate swap – Cash flow hedge					
JPY	-	-	-	-	**-**
USD	-	(627.8)	(89.0)	-	**(716.8)**
EUR	-	-	-	-	**-**
Cross currency interest rate swap – Fair value hedge					
JPY	(5,000.0)	-	-	-	**(5,000.0)**
USD	-	(319.2)	(114.0)	-	**(433.2)**
EUR	-	-	-	-	**-**
Net currency exposure	-	-	-	-	**-**
Weighted average spot rate					
JPY	199.4	-	-	-	
USD	-	1.6	1.4	-	
EUR	-	-	-	-	

Hedge ineffectiveness on currency hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight-line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Currency basis, which forms part of the pricing of cross currency interest rate swaps, is treated as a cost of hedging for all foreign currency hedge designations and as such is only a source of ineffectiveness where hedge accounting has been interrupted.

(ii) Interest rate and inflation rate risk

The Group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at circa 50 per cent of regulatory capital value for index-linked debt and between 5 per cent and 15 per cent for floating rate debt, with the remaining being fixed rate. 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 the Group at all times and maintaining security of principal.

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

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and Company			
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
At 31 March 2019				
Fixed	**(3,296.5)**	**915.6**	**(2,380.9)**	**4.8**
Floating	**(266.4)**	**(150.1)**	**(416.5)**	**2.6**
Index-linked	**(3,160.2)**	**(832.4)**	**(3,992.6)**	**5.9**
	(6,723.1)	**(66.9)**	**(6,790.0)**	

Where exposures arising out of debt issuances are swapped, this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The Group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as detailed in the Derivative Financial Instruments disclosure above. The table below includes all derivative transactions in order to provide a complete overview. Derivatives that do not qualify for hedge accounting are principally those relationships that swap debt into inflation.

	Group and Company						
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	Interest rate (weighted average) payable	receivable
At 31 March 2019							
Interest rate swap							
Floating to fixed rate	-	372.3	113.8	274.0	(179.1)	4.7	1.4
Floating from fixed rate	-	161.7	893.3	-	50.1	0.9	2.2
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(88.2)	3.7	2.4
Inflation rate swaps							
Fixed to RPI	-	-	-	-	-	-	-
Floating to RPI	-	25.0	150.0	390.9	(607.0)	2.6	1.3
Fixed to CPI	-	-	315.0	300.0	(110.4)	1.2	3.5
Floating to CPI	-	-	-	-	-	-	-
Cross currency swaps							
JPY	25.1	-	-	-	9.8	2.1	3.2
USD	-	600.6	144.3	-	145.3	3.3	4.6
EUR	-	-	-	-	-	-	-
Total	**25.1**	**1,259.8**	**2,197.7**	**964.9**	**(779.5)**		

Hedge ineffectiveness on interest rate hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight-line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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

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

	Group and Company	
	2019 £m	2018 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in interest rates	**235.9**	200.8
1% decrease in interest rates	**(460.2)**	(326.9)

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Notes to the Group financial statements continued

21 Financial instruments continued

(ii) Interest rate and inflation rate risk (continued)
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 inflation-linked derivatives
- cash flow sensitivity is calculated on floating interest rate net debt
- all other factors are held constant.

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. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

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 until March 2020 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.

The sensitivity at 31 March of the Group's profit before taxation and pre-tax equity to changes in RPI on debt and derivative instruments is set out in the following table:

	Group and Company	
	2019 £m	2018 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(29.3)**	(25.3)
1% decrease in RPI	**29.3**	25.2

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

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

	Group and Company	
	2019 £m	2018 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(249.4)**	(485.8)
1% decrease in RPI	**194.4**	208.3

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

(iii) Commodity price risk

The Group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover 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, through the purchase of wholesale electricity swaps with financial counterparties or through direct generation. Where swap contracts are utilised, the Group designates the swaps in cash flow hedge relationships.

	Group and Company					
	Within one year MW	Between one and five years MW	Between five and 25 years MW	After 25 years MW	Mark to market £m	£/MWh (weighted average) payable
At 31 March 2019						
Electricity swap	147.7	162.4	70.0	-	(1.0)	47.1
Total	**147.7**	**162.4**	**70.0**	**-**	**(1.0)**	**47.1**

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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

	Group and Company	
	2019 £m	2018 £m
Increase/(decrease) in profit before tax and in equity		
10% increase in commodity prices	**7.6**	8.4
10% decrease in commodity prices	**(7.5)**	(8.4)

Ten per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

(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 and through the collateralisation inherent in the licensing of business retail activities. The Group's largest trade receivable balance is in the Company, 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 17.

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

All cash deposits are held with 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.

In the case of derivatives, the following table sets out the Group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts that do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column in the following table.

Group policy requires that transactions are only executed with counterparties that are both from the lending group and rated at least A- (long term) or A1 (short term) by Standard & Poor's, Moody's or Fitch.

Notes to the Group financial statements continued

21 Financial instruments continued

(b) Credit risk (continued)

	Group and Company				
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2019					
Derivative financial assets	**241.6**	**(25.7)**	**215.9**	**(93.4)**	**122.5**
Derivative financial liabilities	**(1,022.1)**	**25.7**	**(996.4)**	**93.4**	**(903.0)**
At 31 March 2018					
Derivative financial assets	184.1	(46.0)	138.1	(84.9)	53.2
Derivative financial liabilities	(925.0)	46.0	(879.0)	84.9	(794.1)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid.

Offsetting not presented in the balance sheet reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March 2019 the maximum exposure to credit risk for the Group and Company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group	
	2019 £m	2018 £m
Cash and cash equivalents	**257.3**	247.1
Trade and other receivables	**485.7**	478.9
Investments	**297.0**	40.0
Derivative financial assets	**215.9**	138.1

	Company	
	2019 £m	2018 £m
Cash and cash equivalents	**255.5**	245.4
Trade and other receivables	**485.7**	478.9
Investments	**297.0**	40.0
Derivative financial assets	**215.9**	138.1

(c) Capital risk management

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

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

(d) Liquidity risk

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

The Group maintains sufficient liquidity to cover 12 months' working capital requirements. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in the Company and to refinance maturing debt at least three months in advance, to ensure covenant compliance.

The Group has the following undrawn committed borrowing facilities available at 31 March 2019, in respect of which all conditions precedent had been met at that date:

	Group	
	2019 £m	2018 £m
Within one year	**400.0**	390.0
Between one and two years	**100.0**	-
Between two and five years	**500.0**	600.0
After five years	**-**	-
	1,000.0	990.0

The Group's borrowing facilities of £1,000.0 million (2018: £990.0 million) 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, Abbey National Treasury Services Plc and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services 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 two bilateral facilities of £50.0 million each with Bank of China Ltd and Sumitomo Mitsui Banking Corporation for general corporate purposes.

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

	Group				
	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Total £m**
At 31 March 2019					
Trade and other payables	**(192.4)**	**-**	**-**	**-**	**(192.4)**
Borrowings	**(353.1)**	**(2,546.8)**	**(5,680.6)**	**(3,243.5)**	**(11,824.0)**
Derivative financial instruments	**14.1**	**95.1**	**(834.4)**	**(997.1)**	**(1,722.3)**
Finance leases	**(6.5)**	**(14.8)**	**-**	**-**	**(21.3)**
	(537.9)	**(2,466.5)**	**(6,515.0)**	**(4,240.6)**	**(13,760.0)**
At 31 March 2018					
Trade and other payables	(219.3)	-	-	-	(219.3)
Borrowings	(340.0)	(2,262.7)	(6,121.1)	(3,384.9)	(12,108.7)
Derivative financial instruments	35.9	(75.5)	(933.7)	(761.4)	(1,734.7)
Finance leases	(6.1)	(21.4)	-	-	(27.5)
	(529.5)	(2,359.6)	(7,054.8)	(4,146.3)	(14,090.2)

Notes to the Group financial statements continued

21 Financial instruments continued

(d) Liquidity risk (continued)

	Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2019					
Trade and other payables	**(239.1)**	**-**	**-**	**-**	**(239.1)**
Borrowings	**(353.1)**	**(2,546.8)**	**(5,680.6)**	**(3,243.5)**	**(11,824.0)**
Derivative financial instruments	**14.1**	**95.1**	**(834.4)**	**(997.1)**	**(1,722.3)**
Finance leases	**(6.5)**	**(14.8)**	**-**	**-**	**(21.3)**
	(584.6)	**(2,466.5)**	**(6,515.0)**	**(4,240.6)**	**(13,806.7)**
At 31 March 2018					
Trade and other payables	(265.6)	-	-	-	(265.6)
Borrowings	(340.0)	(2,262.7)	(6,121.1)	(3,384.9)	(12,108.7)
Derivative financial instruments	35.9	(75.5)	(933.7)	(761.4)	(1,734.7)
Finance leases	(6.1)	(21.4)	-	-	(27.5)
	(575.8)	(2,359.6)	(7,054.8)	(4,146.3)	(14,136.5)

22 Provisions

	Group and Company			
	Onerous leases £m	Coupon enhance-ment £m	Legal and other claims £m	Total £m
At 1 April 2018	0.8	7.5	7.7	**16.0**
Charge for the year	-	-	0.2	**0.2**
Unwinding of discount	-	0.3	-	**0.3**
Utilised in the year	(0.2)	(1.4)	(2.7)	**(4.3)**
At 31 March 2019	**0.6**	**6.4**	**5.2**	**12.2**

Maturity analysis of total provisions

	2019 £m	2018 £m
Current	**4.2**	5.3
Non-current	**8.0**	10.7
	12.2	16.0

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 three years.

As part of the securitisation that took place in 2002, the bonds that formed part of the transfer of debt from Anglian Water Plc (now AWWG Group Ltd) to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in the Company for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 20 years.

Provisions for legal and other claims of £5.2 million (2018: £7.7 million) are in respect of legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

23 Deferred tax

	Group and Company					
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
At 1 April 2017 (as previously reported)	1,076.5	(160.7)	(12.9)	(60.8)	(2.6)	**839.5**
Change in accounting policy – IFRS 15	57.7	-	-	-	29.4	**87.1**
At 1 April 2017 (restated)	1,134.2	(160.7)	(12.9)	(60.8)	26.8	**926.6**
Credited directly to the income statement	(35.1)	20.2	1.3	-	4.2	**(9.4)**
Credited directly to other comprehensive income	-	3.1	13.3	-	-	**16.4**
Offset against corporation tax liability	-	-	-	23.8	-	**23.8**
At 31 March 2018 (restated)	**1,099.1**	**(137.4)**	**1.7**	**(37.0)**	**31.0**	**957.4**
Credited directly to the income statement	(13.3)	(16.2)	2.1	-	(33.6)	**(61.0)**
Credited directly to other comprehensive income	-	6.5	(3.1)	-	-	**3.4**
Offset against corporation tax liability	-	-	-	37.0	-	**37.0**
At 31 March 2019	**1,085.8**	**(147.1)**	**0.7**	**-**	**(2.6)**	**936.8**

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

24 Pension commitments

Prior to the closure to accrual on 31 March 2018, pension arrangements for approximately 25 per cent of the Company's employees were of the funded defined benefit type, through the Anglian Water Group Pension Scheme ('AWGPS'). On 31 March 2017, the assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited, which was acquired in July 1997, trade and assets transferred on 1 April 2000, were transferred into a segregated section of the AWGPS. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees now have the option to participate in a new high-quality defined contribution scheme, which offers an equitable scheme with more flexible benefits.

Full valuations as at 31 March 2017 have been completed for the AWGPS (including the Hartlepool section) scheme, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2019.

The Group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

With effect from 1 April 2018, future service contributions for both the Main Section (2018: 12.8 per cent of pensionable pay) and Hartlepool Section (2018: 36.1 per cent of pensionable pay) of the AWGPS ceased as there was no future accrual of benefits. During the year the Group contributed £13.2 million, of which £12.5 million related to deficit reduction payments. There were no deficit reduction payments for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2017 valuation (2018: £41.6k per month until February 2018). In the year to 31 March 2020, employers' contributions are expected to be £12.9 million.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 21 years, for the Hartlepool section of AWGPS is 20 years and for the unfunded scheme is 12 years.

The pension deficit at 31 March 2019 has been updated to include a £3.3 million provision for the accounting impact of guaranteed minimum pension equalisation. This is disclosed as a past service cost in part of this note.

There is one active defined contribution scheme, which operates predominantly in the UK, and contributions to this scheme amounted to £16.9 million (2018: £8.6 million).

Notes to the Group financial statements continued

24 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:

	2019 % pa	2018 % pa
Discount rate	**2.4**	2.6
Inflation rate		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increase to deferred benefits during deferment		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increases to inflation-related pensions in payment[1]		
RPI	**3.2**	3.2
CPI	**2.3**	2.3

	2019 Years	2018 Years
Longevity at age 65 for current pensioners		
Men	**22.4**	22.5
Women	**22.5**	24.6
Longevity at age 65 for future pensioners[2]		
Men	**23.7**	23.9
Women	**25.7**	25.9

[1] For RPI pension increases capped at 5 per cent per annum.

[2] The life expectancy shown for future pensioners is for those reaching 65 in 2039.

(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
At 31 March 2019					
Discount rate	+/- 0.5% pa	-146/+169	-2/+2	-3/+3	**-151/+174**
Rate of RPI inflation	+/- 0.5% pa	+115/-102	+1/-1	+3/-3	**+119/-106**
Rate of salary increases	+/- 0.5% pa	Nil	Nil	Nil	**Nil**
Life expectancy	+/- 1 year	+52/-51	+3/-3	+2/-2	**+57/-56**

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 Consumer Prices Index (CPI) inflation, pension increases and salary increases due to the way the assumptions are derived.

(c) Risk and risk management

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

The risks are considered below from both a funding perspective (which drives the cash commitments of the Group) and from an accounting perspective – 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 returns 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.

(d) Amounts recognised in comprehensive income

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2019				
Amount charged to staff costs within operating profit				
Current service cost	**-**	**-**	**-**	**-**
Past service cost	**(3.3)**	**-**	**-**	**(3.3)**
Administration expenses	**-**	**-**	**-**	**-**
Total operating charge (see note 10)	**(3.3)**	**-**	**-**	**(3.3)**
Net interest credit/(expense) (see note 8)	**1.5**	**0.1**	**(1.2)**	**0.4**
Amounts (charged)/credited to the income statement	**(1.8)**	**0.1**	**(1.2)**	**(2.9)**
Amounts credited to comprehensive income				
Return on plan assets (excluding amounts included in net interest)	**24.3**	**0.5**	**-**	**24.8**
Actuarial losses arising from changes in financial assumptions	**(38.4)**	**(0.3)**	**-**	**(38.7)**
Actuarial losses arising from experience adjustments	**(4.6)**	**(0.1)**	**(0.2)**	**(4.9)**
Net charge to comprehensive income	**(18.7)**	**0.1**	**(0.2)**	**(18.8)**
2018				
Amount charged to staff costs within operating profit				
Current service cost	(8.8)	(0.3)	-	(9.1)
Administration expenses	-	(0.1)	-	(0.1)
(Loss)/gain on curtailment/settlement	(2.2)	1.8	-	(0.4)
Total operating charge (see note 10)	(11.0)	1.4	-	(9.6)
Net interest income (see note 8)	(0.7)	0.1	(1.2)	(1.8)
Amounts charged to the income statement	(11.7)	1.5	(1.2)	(11.4)
Amounts charged to comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	51.1	(0.3)	-	50.8
Actuarial gains arising from changes in financial assumptions	20.3	0.3	0.7	21.3
Actuarial gains arising from experience adjustments	5.5	0.1	(0.3)	5.3
Net credit to comprehensive income	76.9	0.1	0.4	77.4

Notes to the Group financial statements continued

24 Pension commitments continued

(e) Amounts recognised in the balance sheet

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2019				
Equities	**75.5**	**0.3**	**-**	**75.8**
Corporate bonds	**992.1**	**-**	**-**	**992.1**
Government bonds	**386.8**	**24.7**	**-**	**411.5**
Property	**68.2**	**-**	**-**	**68.2**
Other	**15.5**	**0.1**	**-**	**15.6**
Total assets	**1,538.1**	**25.1**	**-**	**1,563.2**
Present value of scheme liabilities	**(1,495.4)**	**(18.5)**	**(45.8)**	**(1,559.7)**
Net pension surplus	**42.7**	**6.6**	**(45.8)**	**3.5**
Comprising:				
Pension schemes with a net surplus, included in non-current assets	**42.7**	**6.6**	**-**	**49.3**
Pension schemes with a net obligation, included in non-current liabilities	**-**	**-**	**(45.8)**	**(45.8)**
	42.7	**6.6**	**(45.8)**	**3.5**
2018				
Equities	133.1	3.5	-	136.6
Corporate bonds	835.1	-	-	835.1
Government bonds	437.5	23.3	-	460.8
Property	103.3	-	-	103.3
Alternatives	90.4	-	-	90.4
Other	(48.3)	0.5	-	(47.8)
Total assets	1,551.1	27.3	-	1,578.4
Present value of scheme liabilities	(1,501.1)	(21.0)	(47.2)	(1,569.3)
Net pension surplus	50.0	6.3	(47.2)	9.1
Comprising:				
Pension schemes with a net surplus, included in non-current assets	50.0	6.3	-	56.3
Pension schemes with a net obligation, included in non-current liabilities	-	-	(47.2)	(47.2)
	50.0	6.3	(47.2)	9.1

Pension schemes in a net surplus position at the balance sheet date are shown as retirement benefit surpluses within non-current assets on the balance sheet.

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. All scheme assets are quoted at their market values.

(f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2018				
At 1 April 2017	1,493.8	30.2	-	1,524.0
Interest income on scheme assets	38.3	0.8	-	39.1
Administration costs	-	(0.1)	-	(0.1)
Employers' contributions	15.6	0.7	2.8	19.1
Members' contributions	3.7	-	-	3.7
Benefits paid	(51.4)	(4.0)	(2.8)	(58.2)
Return on plan assets (excluding interest income)	51.1	(0.3)	-	50.8
At 31 March 2018	1,551.1	27.3	-	1,578.4
2019				
At 1 April 2018	**1,551.1**	**27.3**	**-**	**1,578.4**
Interest income on scheme assets	**39.3**	**0.6**	**-**	**39.9**
Employers' contributions	**13.2**	**-**	**2.8**	**16.0**
Benefits paid	**(89.8)**	**(3.3)**	**(2.8)**	**(95.9)**
Actuarial gain	**24.3**	**0.5**	**-**	**24.8**
At 31 March 2019	**1,538.1**	**25.1**	**-**	**1,563.2**

(g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2018				
At 1 April 2017	(1,524.2)	(26.2)	(49.2)	(1,599.6)
Current service cost	(8.8)	(0.3)	-	(9.1)
Gain on curtailment	(2.4)	1.8	-	(0.6)
Interest cost on scheme liabilities	(39.1)	(0.7)	(1.2)	(41.0)
Members' contributions	(3.7)	-	-	(3.7)
Benefits paid	51.4	4.0	2.8	58.2
Actuarial gain	25.7	0.4	0.4	26.5
At 31 March 2018	(1,501.1)	(21.0)	(47.2)	(1,569.3)
2019				
At 1 April 2018	**(1,501.1)**	**(21.0)**	**(47.2)**	**(1,569.3)**
Past service cost	**(3.3)**	**-**	**-**	**(3.3)**
Interest cost on scheme liabilities	**(37.8)**	**(0.5)**	**(1.2)**	**(39.5)**
Benefits paid	**89.8**	**3.3**	**2.8**	**95.9**
Actuarial loss	**(43.0)**	**(0.3)**	**(0.2)**	**(43.5)**
At 31 March 2019	**(1,495.4)**	**(18.5)**	**(45.8)**	**(1,559.7)**

Notes to the Group financial statements continued

25 Hedging reserves

	2019 £m	2018 £m
At the beginning of the year (as previously reported)	**(105.3)**	(120.5)
Change in accounting policy – IFRS 9	**(3.8)**	-
At the beginning of the year (restated)	**(109.1)**	(120.5)
Gains on cash flow energy hedges	**9.8**	8.3
Amounts transferred to the income statement	**(3.2)**	(1.8)
Losses on cash flow hedges	**(10.8)**	(46.3)
Transfer to income statement arising from discontinuation of cash flow hedges	**4.7**	3.7
Exchange movement hedging instruments related to debt in cash flow hedges	**38.8**	54.4
Deferred tax movement on cash flow hedges	**(6.1)**	(3.1)
At 31 March	**(75.9)**	(105.3)

Cost of hedging reserve

	2019 £m
At the beginning of the period (as previously reported)	**-**
Change in accounting policy – IFRS 9	**1.8**
At the beginning of the year (restated)	**1.8**
Amounts transferred to the income statement	**(0.3)**
Gains on cash flow hedges	**0.9**
Deferred tax movement	**(0.4)**
At the end of the period	**2.0**

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component. See notes 1 and 31 for the impact of adopting IFRS 9.

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Annual movements		Cumulative reserves			
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
Cash flow hedge of interest rate risk	84.6	3.4	(7.5)	(81.5)	15.1	(73.9)
	84.6	**3.4**	**(7.5)**	**(81.5)**	**15.1**	**(73.9)**

26 Share capital

	Group and Company	
	2019 £m	2018 £m
Allotted, issued and fully paid		
32 million (2018: 10 million) ordinary shares of £1 each	**32.0**	10.0
	32.0	10.0

On 5 October 2018 the Company issued 22 million £1 ordinary shares to its immediate parent undertaking in return for cash.

This is the first stage of an equity injection programme intended by the Directors to reduce gearing over the period to 2025.

27 Capital commitments

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

	Group and Company	
	2019 £m	2018 £m
Property, plant and equipment	**67.3**	76.1
Intangible assets	**26.6**	32.7
	93.9	108.8

28 Operating lease commitments

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

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

	2019 £m	2018 £m
Within one year	**4.2**	3.8
Between one and five years	**15.1**	14.0
After five years	**27.8**	15.7
	47.1	33.5

On adoption of IFRS 16, the Group expects to bring substantially all leases currently treated as operating leases onto the balance sheet.

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

	2019 £m	2018 £m
Within one year	**0.4**	0.4
Between one and five years	**1.2**	1.6
After five years	**-**	-
	1.6	2.0

29 Contingencies

The Company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2019 amounted to £7,921.6 million (2018: £7,321.8 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are also guaranteed unconditionally and irrevocably by the Company. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited had no outstanding indebtedness at 31 March 2019 (2018: £nil).

During the year to 31 March 2019, there has been no change to the Group's position from that disclosed in the 31 March 2018 consolidated financial statements. As noted there, the Group has received indications of claims from four groups of property search companies that, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. Of the four groups, two are still in correspondence with Anglian Water Services Limited. This is an industry-wide issue, and at this stage the Directors consider the claim to be uncertain, but not to be material to the financial standing of the Company.

As is normal for a company of this size and nature, the Group 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.

Notes to the Group financial statements continued

30 Ultimate parent undertaking and controlling party
Anglian Water Services Limited is incorporated and domiciled in the UK.

Following a reorganisation on 30 May 2018, the Company's immediate parent undertaking is now Anglian Water Services UK Parent Co Limited, a company registered in England and Wales. At the year ended 31 March 2018, the Company's immediate parent undertaking was Anglian Water Services Overseas Holdings Limited, a company registered in the Cayman Islands.

The Directors consider Anglian Water Group Limited, a company registered in Jersey but domiciled in the UK, 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, Camulodunum Investments Limited (CIL) and Infinity Investments S.A. ('Infinity'). 3i sold its holding in Anglian Water Group Limited to CIL on 21 February 2018 and Colonial First State sold part of its holding to Infinity on 22 June 2018.

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

31 Impact of changes to accounting policies
As set out in note 1, the Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 April 2018. The impact of adopting these standards on the Group's financial statements is set out below.

IFRS 9 'Financial Instruments'
Within the statement of changes in equity, a distinction has been made between the change in value of fair value hedging instruments and the fair value movements identified as costs of hedging, the latter being presented in the cost of hedging reserve. The adjustment recorded relates to the treatment of currency basis as a cost of hedging in relation to the cross currency interest rate swaps transacted in order to swap foreign currency debt issuances into sterling.

In accordance with IFRS 9, paragraphs 7.2.1 and 7.2.15, the Company has applied this standard retrospectively but has elected not to restate prior periods.

IFRS 15 'Revenue from Contracts with Customers'
We have elected to restate prior year periods to reflect the impact of IFRS 15.

Within the income statement, revenue of £63.1 million for the year ended 31 March 2018 has been recognised, being the value of grants and contributions received. Other income, reflecting amortisation of previously deferred grants and contributions, has been reversed, resulting in a net increase in operating profit of £46.9 million for the year ended 31 March 2018.

On adoption of IFRS 15, previously deferred grants and contributions of £498.9 million have been recognised in equity as at 1 April 2017. After reflecting the above adjustments to operating profit, deferred grants and contributions of £539.5 million at 31 March 2018 have been derecognised.

Deferred tax of £87.1 million at 1 April 2017, and £94.0 million at 31 March 2018, has been recognised on the above restatements in accordance with IAS 12 'Income Taxes'.

The cash flow statements for the year ended 31 March 2018 have been restated to reflect the cash flow impact of grants and contributions received as cash generated from operations, rather than being included in investing activities.

The only other IFRS restatement is for the reclassification of certain types of income, which for regulatory reporting is offset against operating costs, as revenue. In the year ended 31 March 2018, this income amounted to £11.1 million and relates principally to rent receivables, electricity generated from Combined Heat and Power engines, and sludge sales. This reclassification has no effect on operating profit or operating cash flow.

Restatement of the income statement for the year ended 31 March 2018

	As published £m	Impact of IFRS 15 £m	Restated £m
Revenue			
Other operating income	1,248.9	63.1	**1,312.0**
Operating costs	16.1	(5.0)	**11.1**
Operating costs before depreciation and amortisation	(581.0)	(11.1)	**(592.1)**
Depreciation and amortisation	(335.5)	(0.1)	**(335.6)**
Total operating costs	(916.5)	(11.2)	**(927.7)**
Operating profit	348.5	46.9	**395.4**
Finance income – external	1.6	-	**1.6**
Finance income – internal	191.8	-	**191.8**
Finance costs including fair value gains on derivative financial instruments	(226.5)	-	**(226.5)**
Net finance costs	(33.1)	-	**(33.1)**
Profit on disposal of business	4.6	-	**4.6**
Profit before tax from continuing operations			
Profit before exceptional items and fair value gains	6.0	46.9	**52.9**
Exceptional items – profit on disposal	4.6	-	**4.6**
Finance income – internal	191.8	-	**191.8**
Fair value gains on derivative financial instruments	117.6	-	**117.6**
Profit before tax from continuing operations	320.0	46.9	**366.9**
Tax	(27.7)	(6.9)	**(34.6)**
Profit for the year	292.3	40.0	**332.3**

Restatement of comprehensive income for the year ended 31 March 2018

	As published £m	Impact of IFRS 15 £m	Restated £m
Profit for the year	292.3	40.0	**332.3**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains on retirement benefit obligations	77.4	-	**77.4**
Income tax on items that will not be reclassified	(13.3)	-	**(13.3)**
	64.1	-	**64.1**
Items that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges recognised in equity	16.4	-	**16.4**
Gains on cash flow hedges transferred to profit or loss	1.9	-	1.9
Income tax on items that may be reclassified	(3.1)	-	**(3.1)**
	15.2	-	**15.2**
Other comprehensive income for the year, net of tax	**79.3**	**-**	**79.3**
Total comprehensive income for the year	**371.6**	**40.0**	**411.6**

Notes to the Group financial statements continued

31 Impact of changes to accounting policies continued

Restatement of the balance sheet at 1 April 2017

	As published £m	Impact of IFRS 15 £m	**Restated £m**
Non-current assets			
Intangible assets	139.4	-	**139.4**
Property, plant and equipment	9,517.7	5.4	**9,523.1**
Investment in joint ventures	1,602.6	-	**1,602.6**
Derivative financial instruments	256.1	-	**256.1**
Retirement benefit surpluses	4.0	-	**4.0**
	11,519.8	5.4	**11,525.2**
Current assets			
Inventories	9.3	-	**9.3**
Trade and other receivables	429.9	-	**429.9**
Investments – cash deposits	75.0	-	**75.0**
Cash and cash equivalents	354.8	-	**354.8**
Derivative financial instruments	12.6	-	**12.6**
	881.6	-	**881.6**
Assets classified as held for sale	85.6	-	**85.6**
Total assets	12,487.0	5.4	**12,492.4**
Current liabilities			
Trade and other payables	(467.3)	14.9	**(452.4)**
Current tax liabilities	(267.6)	-	**(267.6)**
Borrowings	(278.4)	-	**(278.4)**
Derivative financial instruments	(16.3)	-	**(16.3)**
Provisions	(4.1)	-	**(4.1)**
	(1,033.7)	14.9	**(1,018.8)**
Net current liabilities	(152.1)	14.9	**(137.2)**
Non-current liabilities			
Borrowings	(6,196.5)	-	**(6,196.5)**
Derivative financial instruments	(1,043.8)	-	**(1,043.8)**
Deferred tax liabilities	(839.5)	(87.1)	**(926.6)**
Retirement benefit obligations	(79.6)	-	**(79.6)**
Provisions	(10.2)	-	**(10.2)**
Other non-current liabilities	(484.0)	484.0	**-**
	(8,653.6)	396.9	**(8,256.7)**
Liabilities directly associated with assets held for sale	(11.2)	-	**(11.2)**
Total liabilities	(9,698.5)	411.8	**(9,286.7)**
Net assets	2,788.5	417.2	**3,205.7**
Capital and reserves			
Share capital	10.0	-	**10.0**
Retained earnings	2,899.0	417.2	**3,316.2**
Hedging reserve	(120.5)	-	**(120.5)**
Total equity	2,788.5	417.2	**3,205.7**

Restatement of the balance sheet at 31 March 2018

	As published £m	Impact of IFRS 15 £m	Restated £m
Non-current assets			
Intangible assets	168.3	-	**168.3**
Property, plant and equipment	9,652.0	11.7	**9,663.7**
Derivative financial instruments	89.6	-	**89.6**
Retirement benefit surpluses	56.3	-	**56.3**
	9,966.2	11.7	**9,977.9**
Current assets			
Inventories	10.0	-	**10.0**
Trade and other receivables	478.9	-	**478.9**
Investments – cash deposits	40.0	-	**40.0**
Cash and cash equivalents	247.1	-	**247.1**
Derivative financial instruments	48.5	-	**48.5**
	824.5	-	**824.5**
Total assets	10,790.7	11.7	**10,802.4**
Current liabilities			
Trade and other payables	(528.2)	16.0	**(512.2)**
Current tax liabilities	(264.3)	-	**(264.3)**
Borrowings	(220.0)	-	**(220.0)**
Derivative financial instruments	(16.4)	-	**(16.4)**
Provisions	(5.3)	-	**(5.3)**
	(1,034.2)	16.0	**(1,018.2)**
Net current liabilities	(209.7)	16.0	**(193.7)**
Non-current liabilities			
Borrowings	(6,231.7)	-	**(6,231.7)**
Derivative financial instruments	(862.6)	-	**(862.6)**
Deferred tax liabilities	(863.4)	(94.0)	**(957.4)**
Retirement benefit obligations	(47.2)	-	**(47.2)**
Provisions	(10.7)	-	**(10.7)**
Other non-current liabilities	(523.5)	523.5	**-**
	(8,539.1)	429.5	**(8,109.6)**
Total liabilities	(9,573.3)	445.5	**(9,127.8)**
Net assets	1,217.4	457.2	**1,674.6**
Capital and reserves			
Share capital	10.0	-	**10.0**
Retained earnings	1,312.7	457.2	**1,769.9**
Hedging reserve	(105.3)	-	**(105.3)**
Total equity	1,217.4	457.2	**1,674.6**

Notes to the Group financial statements continued

31 Impact of changes to accounting policies continued

Restatement of the cash flow statement for the year ended 31 March 2018

	As published £m	Impact of IFRS 15 £m	Restated £m
Operating activities			
Operating profit	348.5	46.9	**395.4**
Adjustments for:			
Amortisation of deferred grants and contributions	(16.1)	16.1	**-**
Depreciation and amortisation	335.5	0.1	**335.6**
Assets adopted for nil consideration	-	(20.9)	**(20.9)**
Profit on disposal of property, plant and equipment	(4.1)	-	**(4.1)**
Difference between pension charge and cash contributions	(9.2)	-	**(9.2)**
Net movement in provisions	2.2	-	**2.2**
Working capital movements:			
Increase in inventories	(0.7)	-	**(0.7)**
Increase in trade and other receivables	(49.3)	-	**(49.3)**
Increase in trade and other payables	37.2	4.6	**41.8**
Cash generated from operations	644.0	46.8	**690.8**
Income taxes paid	(23.5)	-	**(23.5)**
Net cash flows from operating activities	620.5	46.8	**667.3**
Investing activities			
Repayment of loans by intermediate parent company	1,602.6	-	**1,602.6**
Purchase of property, plant and equipment	(378.9)	(6.4)	**(385.3)**
Purchase of intangible assets	(64.3)	-	**(64.3)**
Disposal of business, net of cash disposed	79.0	-	**79.0**
Grants and contributions received	40.4	(40.4)	**-**
Proceeds from disposal of property, plant and equipment	4.5	-	**4.5**
Interest received on deposits	1.5	-	**1.5**
Interest received on inter-company loan	192.3	-	**192.3**
Net cash flows from investing activities	1,477.1	(46.8)	**1,430.3**
Financing activities			
Interest paid	(215.9)	-	**(215.9)**
Debt issue costs paid	(1.7)	-	**(1.7)**
Interest element of finance lease rental payments	(0.8)	-	**(0.8)**
Increase in amounts borrowed	248.6	-	**248.6**
Repayment of amounts borrowed	(247.7)	-	**(247.7)**
Repayment of accumulated interest on derivatives	(73.9)	-	**(73.9)**
Capital element of finance lease rental payments	(5.7)	-	**(5.7)**
Decrease in short-term bank deposits	35.0	-	**35.0**
Dividends paid to owners of the parent	(86.1)	-	**(86.1)**
Dividends paid not available for distribution to investors in the ultimate parent company	(1,857.1)	-	**(1,857.1)**
Net cash flows used in financing activities	(2,205.3)	-	**(2,205.3)**
Net (decrease) in cash and cash equivalents	(107.7)	-	**(107.7)**
Cash and cash equivalents at the beginning of the year	354.8	-	**354.8**
Cash and cash equivalents at the end of the year	247.1	-	**247.1**

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 2018, 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, agreed to the extension of its participation in the £500.0 million revolving credit facility with an allocation of £45.0 million and continued to participate in the Operation and Maintenance facility with an allocation of £25.0 million. The fees earned on these facilities totalled £8,750.

During the year to 31 March 2019, there were no other transactions, other than £68.0 million of dividends (2018: none other than £86.1 million of dividends) with the shareholders.

(b) Remuneration of key management personnel

Key management personnel comprise all the Directors and the members of the Management Board during the year.

The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 117–139.

	2019 £m	2018 £m
Short-term employee benefits	**4.9**	4.8
Post-employment benefits	**0.5**	0.5
Other long-term benefits	**2.2**	1.7
	7.6	7.0

At the balance sheet date, key management also held various bonds issued by the Group totalling £2.2 million (2018: £2.2 million).

(c) Parent company

The Company's related party transactions are summarised below:

	2019 £m	2018 £m
Sale of goods/services to:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**0.6**	0.2
Purchase of goods/services from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**7.3**	0.6
Management fees received from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Management fees paid to:		
Parent company	**-**	-
Subsidiaries	**0.3**	0.3
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Interest received from:		
Parent company	**-**	191.8
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Interest paid to:		
Parent company	**-**	-
Subsidiaries	**351.5**	350.6
Fellow subsidiaries of Anglian Water Group Limited	**-**	-

Notes to the Group financial statements continued

32 Related party transactions continued

(c) Parent company (continued)

	2019 £m	2018 £m
Dividends received from:		
Subsidiaries	**-**	-
Dividends paid to:		
Parent company	**68.0**	1,942.7
Trade and other receivables due from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**0.3**	0.5
Trade and other payables due to:		
Parent company	**-**	-
Subsidiaries	**46.6**	46.3
Fellow subsidiaries of Anglian Water Group Limited	**0.8**	264.5
Loans and other borrowings due from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Loans and other borrowings due to:		
Parent company	**-**	-
Subsidiaries	**6,931.4**	6,543.4
Fellow subsidiaries of Anglian Water Group Limited	**-**	-

33 Events after the balance sheet date

The final dividend for 2018/19 of £67.8 million was approved by the Board on 23 May 2019 for payment on a date to be agreed.

Other than the above, there have been no events between the balance sheet date and the date on which the financial statements were approved by the Board that would require adjustment to the financial statements or any additional disclosures.

Independent auditor's report to the members of Anglian Water Services Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Anglian Water Services Limited (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2019 and of the Group's profit 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 and IFRSs as issued by the International Accounting Standards Board (IASB);**
- **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.**

We have audited the financial statements, which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statement; and
- the related notes 1 to 33.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs [UK]) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. While the parent company is not a public interest entity subject to European Regulation 537/2014, the Directors have decided that the parent company should follow the same requirements as if that Regulation applied to the parent company. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Bad debt provisioning; • Revenue recognition – estimating unbilled revenue; • Classification of costs between operating and capital expenditure; and • Derivative accounting. The wholesale charges to water retailers is no longer a key audit matter in the current period based on the qualitatively nature of the adjustment in the current year. Within this report, any new key audit matters are identified with ⊼ and any key audit matters which are the same as the prior year identified with ≫.
Materiality	The materiality that we used for the Group financial statements was £13.5m (2018: £10.1m), which was determined on the basis of 3% of EBITDA. As at 31 March 2019, we changed our basis of materiality used from an adjusted profit before tax expense. An EBITDA measure has been used following the restructure of the Anglian Water Services Group. This aligns the materiality benchmarks applied to the Anglian Water Services and Anglian Water Group.
Scoping	The Group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company, Anglian Water Services Financing Plc (the Group's financing entity). We performed full-scope audit procedures, which accounted for 100% of the Group's total net assets and 100% of the Group's EBITDA.
Significant changes in our approach	Our approach in the current year is materially consistent with the prior year with the exception of the change in materiality benchmark and removal of the key audit matter in relation to wholesale charges to water retailers.

Independent auditor's report continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We state whether we have anything material to add or draw attention to in relation to that statement that would be required by Listing Rule 9.8.6R(3) if the Company had a premium listing and report if the statement is materially inconsistent with our knowledge obtained in the audit

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 72 to 97 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 92 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 92 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We also report whether the Directors' statement relating to the prospects of the Group that would be required by Listing Rule 9.8.6R(3) if the Company had a premium listing is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Debt provisioning

Key audit matter description

At 31 March 2019, the bad debt provision was £192m (2018: £183m). The bad debt charge of £29.2m represented 2.2% of turnover (2018: £28.9m and 2.3% of turnover).

A proportion of the Company's customers do not or cannot pay their bills, which results in the need for provision to be made for non-payment of the customer balance. The bad debt provision is a key area of judgement within the Company and is also an area of scrutiny by Ofwat. We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics that management uses to monitor and report business performance.

We have identified the following two key areas of significant risk in respect of the estimation of the bad debt provision:

- the accuracy of customer data included within the aged debt report, specifically whether customer data has been correctly classified based on the ageing of their debt; and
- the reasonableness of the cash collection assumptions made by management.

The Audit Committee also considered this as a significant issue, and it is discussed in the Audit Committee Report on page 114. It is also included as a key source of estimation uncertainty in note 2 to the financial statements, and the relevant accounting policy is disclosed in note 1(o).

How the scope of our audit responded to the key audit matter

We have:
- assessed the design and implementation and tested the operating effectiveness of key controls within the bad debt estimation process;
- verified the accuracy of information within the aged debt report to assess whether the customer debt is accurately categorised based on information contained within the company's billing cycle;
- verified that the final provision has been calculated in line with the policy of the Group through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 requirements;
- reviewed management's bad debt policy, specifically challenging whether the recoverability assumptions are reflective of current cash collection rates and whether the final provision is in line with industry peers;
- assessed whether any discrepancies exist between the provision recognised and that supported by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments;
- considered whether the provision appropriately covers any exposure inherent in the unbilled element of the debtor balance;
- audited specific provisions or adjustments included in the total provision balance by understanding the rationale for the adjustment and agreement to supporting documentation; and
- engaged our IT analytics team to perform a recalculation on the debtor ageing, including total debits and total credits not yet written off.

Key observations

We are satisfied that the assumptions applied in assessing the impairment of trade receivables are reasonable and have been applied appropriately to compute the bad debt provision. No additional provisions were identified as being required from the audit work performed.

Revenue recognition – estimating unbilled household revenue

Key audit matter description

For customers with meters, the revenue recognised depends on the volume of water supplied, including an estimate of the sales value of water supplied between the date of the last meter reading and the year end. The household element of the unbilled income accrual is £272m (2018: £263m). The total unbilled income accrual is £307m (2018: £302m).

The most judgemental area of the estimation of unbilled revenue related to the usage estimate, which is based on historical data and assumptions around consumption patterns. Due to the level of management judgement, the estimation of unbilled household revenue has been identified as a key audit matter. Incorrect estimates of water consumption could lead to overstatement of revenue in the period.

We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics that management utilises to monitor and report business performance.

The Audit Committee also considered this as a significant issue, as discussed in the Audit Committee Report on page 114. Management has included this as a key source of estimation uncertainty in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(e).

How the scope of our audit responded to the key audit matter

We have:
- assessed the design and implementation and tested the operating effectiveness of key controls within the unbilled revenue estimation;
- tested management's controls around the estimation techniques used with regard to consumption and other key data inputs into the model;
- challenged the appropriateness of management's consumption assumptions for a sample of individual customers by recalculation;
- audited the analysis of the prior-year accrued revenue with trend analysis to assess whether we are satisfied with any adjustments included in the 2018/19 accrual;
- compared bills raised during 2018/19 relating to the 2017/18 accrual to determine the accuracy of management's forecasting; and
- involved our IT audit specialists to test the accuracy of the reports utilised by management in determining the required accrual.

Key observations

We are satisfied that management's estimates in relation to the recognition of unbilled revenue are appropriate.

Independent auditor's report continued

Classification of costs between operating and capital expenditure

Key audit matter description	The Group continues to invest significantly in infrastructure renewal and replacement, with property, plant and equipment and intangible asset additions of £484.5m (2018: £499.3m) in the period. Expenditure in relation to increasing capacity or enhancing the network is treated as capital expenditure ('capex'). Expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred ('opex'). Capital projects can contain a combination of enhancement and maintenance activity, which are not distinct, and hence the allocation of costs between capital and operating expenditure is inherently judgemental. This risk also includes the inappropriate capitalisation of overheads. We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics that management utilises to monitor and report business performance. The Audit Committee also considered this as a significant issue, as discussed in the Audit Committee Report on page 114. Management has included this as a significant judgement in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(k).
How the scope of our audit responded to the key audit matter	We have: • assessed the design and implementation and tested the operating effectiveness of key controls surrounding the capitalisation of costs and the manual transfer process; • assessed the Group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the capital programme; • for a sample of capital projects, assessed the application of the capitalisation policy to the costs incurred by agreement to third-party invoices and obtained explanations and further support for any significant changes in capital expenditure from budget; and • challenged the assumptions and judgements made in allocating overheads to capital projects, through understanding the nature of activities performed.
Key observations	Based on our audit of a sample of capital projects, the testing of controls and our review of the project budgets, we consider that the classification of costs between operating and capital expenditure is appropriate.

Derivative accounting

Key audit matter description	The Group has a net derivative liability of £780.5m (2018: £740.9m), disclosed in note 21, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices. IFRS 9 'Financial Instruments' requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. This is a complex area of accounting and requires management judgement in relation to the derivative valuation, and in particular the credit risk adjustments, and therefore the valuation of the derivatives has been identified as a key audit matter. For valuation, we have focused on the risk of material misstatement arising on the valuation of the index-linked swaps, as well as swap locks, due to their complexity.
How the scope of our audit responded to the key audit matter	We, with the involvement of our financial instruments specialists, have: • assessed the key controls around the valuation techniques used in determining the fair value of derivatives; • performed independent valuation testing on a sample of derivative financial instruments, including an assessment of the credit risk adjustment; • reviewed hedge documentation, tested hedge effectiveness against the criteria documented and ensured the accounting journals reflect the valuation and effectiveness testing performed; • reviewed the accounting for all derivative positions, both external to the Group and the inter-company arrangements, to assess whether they are in accordance with IFRS 9; and • audited the disclosures required by IFRS 7 and IFRS 13 to assess whether they are compliant with the standard and observed industry practice.
Key observations	Based on our sample of valuations, no material misstatements were identified, and we are satisfied that the hedge accounting treatment is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£13.6m (2018: £10.1m)	£13.5m (2018: £10m)
Basis for determining materiality	Materiality has been determined on 3% of EBITDA, adjusted down further in line with the phasing of the new benchmark used in the current year. We previously used 5% of profit before tax, excluding fair value movements on derivatives. The materiality benchmark applied aligns the Anglian Water Group and Anglian Water Services groups.	
Rationale for the benchmark applied	We have used EBITDA as the benchmark for materiality as this is deemed a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements. The substantial majority of the Group's operations are carried out by the parent company.	

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.675m (2018: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full-scope audits and together account for 100% (2018: 100%) of the Group's turnover, net assets, profit before tax, gains/losses on financial instruments and exceptional items.

All work was carried out directly by the Group audit team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement that would be required if the Company had a premium listing relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, financial instruments valuations, pensions and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - debt provision – ability of management not to provide enough against debts, thereby directly manipulating the financial statements by having a reduced provision and an increased EBITDA
  - revenue recognition – accrued income balance influence on key metrics that management utilises to monitor and report business performance
  - plant, property and equipment – capitalisation of costs that directly impacts EBITDA which is linked to business and
  - derivative accounting due to management's unique position to influence the value of the financial instruments; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, tax legislation and pension legislation. In addition, compliance with terms of the Group's operating licence and the regulatory solvency requirements are fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified debt provision, revenue recognition – estimating unbilled household customer revenue, classification of costs between operating and capital expenditure and derivative accounting as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and OfWat; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Opinion on other matters prescribed by our engagement letter

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records 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 nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006, we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of this matter.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 March 2017 to 31 March 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

James Leigh (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom
29 May 2019

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