

Governance

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Chairman's introduction to Governance

Introducing the Board's approach to governance and its key areas of focus this year.



John Hirst, CBE
Chairman

Dear Stakeholder

I present the Corporate Governance Report for the year ended 31 March 2021. This report provides you with a more detailed look at the Board's approach to governance and its key areas of focus this year.

As I referenced in my Chairman's welcome on pages 10–11, this year has been challenging in ways previously unimaginable. As a Board we are proud of the way our people and alliances have stepped up to the very significant demands of the past year. The Board has also had to respond to Covid-19 and I am grateful to my fellow Directors for their adaptability, with all our Board meetings having been held virtually during the year. Further information on our response to Covid-19 can be found on pages 14–17.

Transparency and governance

This report details our compliance against the Anglian Water Services Corporate Governance Code 2020 (which was adopted by the Board during the year). As described in more detail in the Corporate Governance Report, the 2020 Code incorporates both Ofwat's Board Leadership, Transparency and Governance Principles (which are now incorporated into the Company's Licence) and most of the provisions contained in the 2018 UK Corporate Governance Code.

Board Leadership, Transparency and Governance Principles start on page 104

Board Committees

As ever, our Board continues to be supported by the work of our Committees: Audit, Nomination and Remuneration, whose reports you can read on pages 114–143.

Stakeholder engagement

Throughout the year we have sought to ensure that the needs of our stakeholders are taken into consideration in our decision making, and further information on our key stakeholders can be found throughout the Strategic Report. In October 2020, my fellow Directors and I were able to attend one of our online stakeholder workshops. I found the event valuable as it provided me with the opportunity to meet and receive feedback from a wide range of stakeholders. You can read more in our dedicated section 172 statement on pages 62–65.

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. This year the Board undertook an external evaluation; more information on that can be found in the Nomination Committee Report on pages 120–122.

Annual Performance Report

As in previous years, the Annual Performance Report is being published as a separate document; see anglianwater.co.uk/about-us/our-reports. 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.

John Hirst

Chairman
16 June 2021

Information on the Company's performance during the year can be found on pages 22–75

Please see our Board skills matrix on page III

Board of Directors

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

Group Chief Executive Officer

Steve Buck

Group Chief Financial Officer

Susannah Clements

Group People and Change Director

Brian Ebdon

Director of Strategic Planning and Performance

Iain Fry

Director of Information Services

Paul Gibbs

Director of Water Recycling

Pete Holland

Director of Customer and Wholesale Services

Ciaran Nelson

Director of Brand and Communications

Alex Plant

Director of Strategy and Regulation

Ian Rule

Director of Water Services

Claire Russell

Group Legal Director/ Company Secretary

Jason Tucker

Director of Strategic Delivery and Commercial Assurance

INDEPENDENT CHAIRMAN



John Hirst, CBE
Independent Chairman

APPOINTED

- Chairman in April 2020
- Senior Independent Non-Executive Director in January 2016
- Independent Non-Executive Director in April 2015

SKILLS, COMPETENCIES & EXPERIENCE

John has a wealth of experience leading and transforming complex organisations. He was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc, a FTSE 250 electronics distribution company, between 1998 and 2005. His early career was with ICI, beginning in finance before progressing into various leadership roles and serving on the group executive team as Chief Executive of the speciality chemicals division. 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.

OTHER ROLES

John is Chairman of the British Standards Institution (BSI) and the National Oceanography Centre. He is also a Director of IMIS Global Limited and Afontech Limited. John is Chairman of SUDEP Action and a Trustee of Epilepsy Research UK.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Dame Polly Courtice, DBE, LVO
Senior Independent Non-Executive Director

- Senior Independent Non-Executive Director in April 2020
- Independent Non-Executive Director in April 2015

As the Founder Director of the University of Cambridge Institute for Sustainability Leadership (CISL) from 1989 to 2021, Polly has extensive experience working with global businesses as an ambassador for best practice in sustainability. 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.

Polly is Emeritus Director and Senior Ambassador of CISL. She is a Board Adviser to BSI, is a Director of Jupiter Green Investment Trust and serves on the environmental/ sustainability advisory boards for AstraZeneca and Nespresso. She is also Deputy Lieutenant for Cambridgeshire and is a member of the Cambridgeshire and Peterborough Independent Commission on Climate.

A Audit Committee **N** Nomination Committee **R** Remuneration Committee ● Denotes Committee Chair



Natalie Ceeney, CBE
Independent Non-Executive
Director

- Independent Non-Executive Director in April 2018

Natalie spent more than 20 years leading organisational and digital transformation, firstly as a McKinsey & Company consultant and then as an executive. She has worked across a range of sectors, both public and private, and has experience as a regulator as well as a CEO. Natalie has a focus on and deep interest in meeting the needs of customers, inclusion, and the transformational nature of technology. Natalie's executive career included chief executive 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.

Natalie is currently a Non-Executive Director of Sport England and Ford Credit Europe. Natalie also chairs the Board of Innovate Finance, the industry body representing the UK FinTech sector.



Zarin Patel
Independent Non-Executive
Director

- Chair of the Audit Committee in April 2020
- Independent Non-Executive Director in October 2018

Zarin is a chartered accountant who spent 16 years at KPMG followed by 15 years at the BBC, during which time she helped to transform the organisation into a fully digital broadcaster. Zarin was CFO of the BBC and sat on its Board, where she was also responsible for risk management. Latterly, Zarin was COO of The Grass Roots Group plc, a customer and employee engagement specialist.

She was an independent member of the Audit & Risk Committee of John Lewis Partnership plc until April 2021.

Zarin is currently a Non-Executive Director of Post Office Limited and Pets at Home Group plc, where she is Chair of the Audit & Risk Committee. She is an Independent Member of the Audit & Risk Committee of HM Treasury. She also sits on the Board of Trustees of the National Trust and chairs its Audit Committee.



Paul Whittaker
Independent Non-Executive
Director

- Chair of the Remuneration Committee in January 2015
- Independent Non-Executive Director in October 2013

Paul has significant regulatory experience gained during an extensive career in the energy sector. He was formerly Director, UK Regulation at National Grid plc, where 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. Immediately prior to that he was Group Head of Strategy.

His career began at British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working internationally. He joined National Grid when it merged with Lattice in 2002.

Paul is an Associate at Oxera LLP.

Board of Directors continued

EXECUTIVE DIRECTORS



Peter Simpson
Chief Executive Officer



Steve Buck
Chief Financial Officer



John Barry*
Non-Executive Director

APPOINTED

- CEO of Anglian Water Group in October 2013
- Managing Director of Anglian Water in 2010 and COO from 2004

- CFO of Anglian Water Group in August 2019

- Non-Executive Director in November 2020

SKILLS, COMPETENCIES & EXPERIENCE

Peter is a founding member, and now co-chair, of CLG UK (the Corporate Leaders Group, run by the University of Cambridge Institute for Sustainability Leadership), which provides a strong voice to support UK leadership nationally and internationally on the transition to a climate-neutral, resource-efficient, socially inclusive economy by 2050.

Steve has spent almost two decades working across the globe in different roles within the utility sector. He has led finance and transformation functions, focusing on delivering for both shareholders and millions of customers in complex and challenging environments.

John is a Chartered Accountant who was a founding member of 3i's infrastructure business and served as a Director of 3i Infrastructure. More recently, he was a Managing Director of First Reserve Corporation, where he was one of the founders of First Reserve's energy infrastructure business. During his time at First Reserve he oversaw numerous investments into the energy sector, including energy from waste, wind and solar power plants, gas-fired power plants, utilities and oil and gas midstream as well as energy backup. John holds a BSc (Hons) in Physics from the University of Southampton.

OTHER ROLES

Peter also works with Business in the Community (BITC) as Chair of the East of England Leadership Team, and sits on the Board of Trustees of WaterAid. 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 the Chartered Institution of Water and Environmental Management. He holds an MBA from Warwick Business School.

Between 2008 and 2017 Steve held a number of positions within Centrica (the global energy and services company) including Group Head, Finance and Transformation. Prior to this, he held a number of roles in Thames Water, the largest water and wastewater company in the UK.

John is Non-Executive Chairman of Cory Energy Group, a Non-Executive Director of North Sea Midstream Partners and a member of the Independent Investment Committee for SUSI Infrastructure Partners Energy Transition Fund.

* Director of Anglian Water Group Limited.

** Alternate Director of Anglian Water Group Limited.



Audit Committee



Nomination Committee



Remuneration Committee



Denotes Committee Chair



James Bryce*
Non-Executive Director

- Non-Executive Director in May 2018

James is co-head of CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (RBEF), where he spent 10 years focused on private equity and infrastructure transactions. Before that, he was a member of the private equity team at JP Morgan Capital and started his career as a pension fund manager at Hambros Bank. James holds an MA from Oxford University.

James is a Director of Associated British Ports Holdings Limited and Viterra Limited.



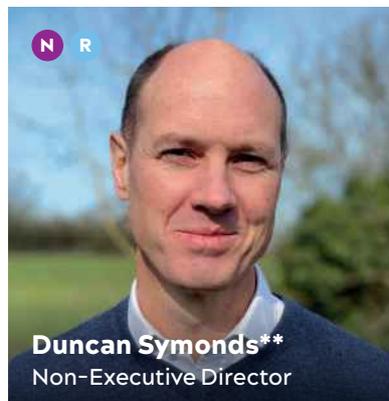
Niall Mills*
Non-Executive Director

- Non-Executive Director in April 2014

Niall is the Global Head of Infrastructure Investments for First Sentier Investors. Niall joined First Sentier Investors in 2008, prior to which he worked in industry, holding senior roles across a variety of sectors, including utility companies, rail and airports.

Niall holds an MBA from London Business School, an Institute of Directors Diploma in Company Directorship and a Bachelor of Engineering (Hons) from Sheffield Hallam University. He is a Fellow of the Institution of Civil Engineers.

Niall is a Director of AS Utilitas Tallinn and Tallinn Water (AS Tallinna Vesa).



Duncan Symonds**
Non-Executive Director

- Non-Executive Director in November 2016

Duncan is the Executive Director of Asset Management for the IFM Investors European Infrastructure team, where he is responsible for the identification and implementation of asset management initiatives across IFM Investors' existing portfolio of infrastructure assets, and for the development and execution of transition plans for new investments. Duncan has an extensive track record in the engineering, construction and transportation industries. He is a Fellow of the Institution of Civil Engineers and holds an MBA from Cranfield School of Management.

Duncan also represents IFM Investors as a director on the boards of Global Infracore S.a.r.l., Airports Group Europe S.a.r.l., and Luxpoort S.a.r.l.

Corporate Governance Report for the year ended 31 March 2021

Principles of corporate governance

Anglian Water is committed to the highest standards of corporate governance. The Anglian Water Services Limited Corporate Governance Code 2020 (the 2020 Code) came into effect on 1 October 2020 and replaced the Anglian Water Services Limited Corporate Governance Code 2019 (the 2019 Code). The 2020 Code incorporates Ofwat's 2019 Board Leadership, Transparency and Governance Principles (the BLTG Principles) and supporting provisions along with most of the provisions contained in the 2018 UK Corporate Governance Code. Only the parts of the UK Corporate Governance Code that cannot sensibly be applied to a company in private ownership, such as the provisions relating to shareholder meetings, have been omitted. Although compliance with the Wates Corporate Governance Principles (in addition to the BLTG Principles) would be sufficient, the Board was keen to adopt more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code.

The only difference between the 2019 Code and the 2020 Code is that Provision 2.4 has been updated to ensure alignment with the company's Articles of Association and Ofwat's requirements on Board composition.

This report details compliance with the 2020 Code and complies with the requirement contained in Anglian Water's Licence to meet the objectives contained in the BLTG Principles and to explain, in a manner that is effective, accessible and clear, how Anglian Water is meeting the four objectives, which are detailed below. Both the 2020 and the 2019 Code can be found at 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.



"Anglian Water is committed to the highest standards of corporate governance."



Available to view at
anglianwater.co.uk

Company purpose, values and culture

OFWAT PRINCIPLE: The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Board recognises that Anglian Water has a special responsibility as a monopoly provider of an essential public service and that it has a duty to deliver wider benefits to society, above and beyond the provision of safe, clean water and the effective recycling of waste water. In 2019, Anglian Water's Articles of Association were amended to enshrine the company's long-standing commitment to a social and environmental purpose. As a consequence of this change in its constitution, Anglian Water must conduct its business and operations for the benefit of shareholders while delivering long-term value for its customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. As part of the change to the Articles of Association the Board has also made an explicit commitment to consider, as part of its decision-making process:

- the impact of Anglian Water's operations on communities and the environment;
- the interests of Anglian Water's employees;
- the need to foster good relationships with customers and suppliers;
- the need to maintain a reputation for high standards of business conduct; and
- the consequences of decisions in the long term.

Within the new Articles of Association, the Directors are required to adopt a Statement of Responsible Business Principles (the SRBP) and, to the extent not covered in the non-financial information statement, explain any steps that have been taken to ensure that the business of the company has been carried out in accordance with the SRBP. In 2020, the Board agreed the SRBP should take the form of Business in the Community's (BITC) Responsible Business Tracker. The outputs from the assessment conducted using the Responsible Business Tracker were discussed with the Board and used to identify areas for development in the following year. The company has conducted a further assessment using the Responsible Business Tracker in 2021 and is awaiting the results. In addition, the collaborative project with the British Standards Institution to develop a Publicly Accessible

Specification (PAS) for Sustainable Purpose is now in development and is due to be completed before the end of the 2021/22 financial year; see pages 40–41 for further information. In future the company intends to hold itself to account in relation to the principles set out in this PAS but will also continue to use the BITC Responsible Business Tracker to monitor progress.

The company's purpose is one part of its 'North Star' framework, which also includes the company's mission and values. Created with employees and endorsed by the Board, the North Star is a rearticulation of the company's purpose, underpinned by a mission statement that describes what kind of business the company is, and by three core values that set standards of behaviour for employees which support the company's mission and purpose. This framework gives all employees a common goal to work towards.

The Board has also sponsored the development of a Social Contract, with the support of employees and customers, which sets out the 10 outcomes the company has agreed with its customers, together with the five Public Interest Commitments to which the water sector jointly committed in April 2019 (see pages 40–41). The Contract sets out Anglian Water's commitment to achieving a positive impact on the environment and the communities it serves and invites customers to play a part in driving these sustainable outcomes in a two-way engagement.

The Board is committed to the idea that both the North Star and the Social Contract must become integral to the way in which the business operates. By way of illustration, the Board supports the approach to employee bonuses, which depend, in part, on the extent to which employees demonstrate behaviours that are consistent with the company's values.

To ensure that colleagues understand the standards expected of them, the company provides all new starters with a booklet entitled 'Doing the Right Thing'. The booklet summarises key company policies in a clear and concise way to ensure that Anglian Water's values and standards are clear to colleagues from their very first day. Doing the Right Thing is available on the company's website at anglianwater.co.uk/governance. Further information can be found on page 56.

A statement from the Board detailing how the company has set its aspirations and performs for all those it serves can be found in the company's [Annual Performance Report](#).

At its meeting in May 2021, the Board considered and inputted into the work undertaken to monitor the company's culture, including how its culture had changed following the 'culture capture' review in 2018 and the evolution of a framework to monitor the company's culture (see page 56).

Corporate Governance arrangements resulting from the Aligned Debt Programme

In 2002, the company established a debt programme that underpins all of its borrowing (including bonds and private placement). All of this borrowing is based on a single set of contractual provisions (a covenant package) and a shared security arrangement that binds all debt providers. The debt programme is 'structured' in that the AWS Financing Group (described below) is separated and ring-fenced; provides security (to the extent allowed by the regulatory framework); and has built-in protections (such as cash management regimes and contractual standstill provisions). The comprehensive package of commitments — or covenants — is contained in a single document that applies to all debt providers, called the Common Terms Agreement or 'CTA'. The debt providers are bound by an intercreditor arrangement contained in a document called the Security Trust and Intercreditor Deed or 'STID'.

The company's debt programme has been designed to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and the company's Licence (an Aligned Debt Programme) in order to support and enhance Anglian Water's credit rating. This structure is based on the principle of Regulated Asset Base (RAB) based financing, which assumes that if the regulated company's operations are confined to running its regulated business and the company is largely protected from non-regulated business risk and external risks, then Ofwat's regulatory framework will remunerate the Regulated Asset Base so that sufficient revenue is available to pay for the cost of servicing the company's debt. Debt providers which provide RAB-based financing also want to ensure that the company to which they are lending is focused entirely on its regulated business, carries out this business in accordance with its regulator's requirements and is largely protected from external risks to that business. Therefore, the interests of the debt providers under Aligned Debt Programmes are fully aligned with the interests of customers (and the regulator).



Found at: anglianwater.co.uk/about-us/our-reports

Corporate Governance Report for the year ended 31 March 2021 continued

Debt providers under Aligned Debt Programmes are also aligned with customers and the regulator in that the programmes are structured to support the principle that a provider of a vital public service must continue the uninterrupted delivery of that service during any default, insolvency or financial distress. In these circumstances, both the company and the regulator would work to resolve the situation to enable the company to return to being able to properly finance its functions and to service its debts. Aligned Debt Programmes provide for a contractual standstill upon the occurrence of an event of default. This has the aligned intention of enabling Ofwat to deal with any problems without having to deal with defaulted or accelerated debt.

The commitments, or covenants, which are a feature of the company's Aligned Debt Programmes help to de-risk the business. The company undertakes that it will only carry on a regulated water business and that it will conduct this business in a prudent manner. These covenants include:

(a) Non-Permitted Business Limits (i.e., de minimis limits on the amount of non-regulated business which can be carried out).

(b) A restriction on tax transactions and a positive obligation to pay all taxes when due.

(c) Minimum insurance requirements (including requirements on the creditworthiness of the insurers).

(d) A hedging policy to require prudent hedging of interest rate and foreign exchange exposure, to prohibit speculative use of derivatives and to ensure swaps are only entered into with highly rated counterparties (so as to reduce counterparty risk).

(e) A requirement to maintain and hold all required IP rights.

(f) An obligation to act in accordance with 'Good Industry Practice' in all areas of the business.

The impact of these covenants was acknowledged by the Competition and Markets Authority (CMA) in its Redetermination of the company's PR19 regulatory settlement, in which the CMA noted that "covenanted companies have de-risking features such as additional ringfencing measures, enhanced rights for secured creditors, automatic standstill periods and contractual dividend restrictions".

The company's immediate parent Anglian Water Services UK Parent Co Limited owns the entire issued share capital of the company (32 million ordinary £1 shares). Under the CTA the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG):

- Anglian Water Services Holdings Limited
- Anglian Water Services UK Parent Co Limited
- Anglian Water Services Limited
- Anglian Water Services Financing Plc.

The composition of the Board and its role in relation to the company's strategy

OFWAT PRINCIPLE: The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

The Board's aim is to ensure the effective delivery of the company's strategy. The company has developed four key goals for 2020–2025 (AMP7), which are:

- 1 To make life better for our customers, every single day
- 2 To deliver our identified business priorities
- 3 To deliver our AMP7 Final Determination
- 4 To create a sustainable future for our region

These goals are designed to be consistent with the company's long-term strategy (which takes the form of a 25-year Strategic Direction Statement, approved by the Board in 2017) which sets out four long-term ambitions which are to:

- make the East of England resilient to the risks of drought and flooding;
- enable sustainable economic and housing growth;
- work with others to achieved significant improvement in ecological quality across our catchments; and
- be a net zero carbon business and reduce the carbon in building and managing our assets by 70 per cent by 2030.

See pages
22–25

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of the company's key goals. 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 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; and
- agreeing to refer any matter (including any proposed Licence modification or Final Determination) to the Competition and Markets Authority.

During the 2020/21 financial year, a number of matters required approval by the AWG Board under the terms of the governance matrix; these included:

- remuneration matters, including awards under the Deferred Bonus Scheme;
- the extension of the Chairman's contract and associated changes to Committee membership;
- the appointment of a new Non-Executive Director; and
- the approval of a refreshed strategy for the remainder of AMP7 (which takes into account the impact of the CMA's Redetermination).

The Board does not believe that the impact of the governance matrix referred to above is such that Directors are deprived of the opportunity to exercise control of the company's strategy. 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. During the 2020/21 financial year the company's Board considered each of the matters detailed above prior to the matter being considered by the AWG Board and made a recommendation. In each case the AWG Board agreed with the recommendation made by the company's Board. In formulating their recommendations, the Directors of the company are mindful of the company's purpose (referred to above) as well as their duty under the company's Articles of Association 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).

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 and its Committees are such that there is an appropriate balance of skills, experience, independence and knowledge of the company. As is explained below, Independent Non-Executive Directors make up the largest single group on the Board. 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 making.

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.

Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 100-103

Corporate Governance Report for the year ended 31 March 2021 continued

Board composition

The Directors who held office during the year and up to the date of signing the financial statements were as follows:



John Hirst
Independent Non-Executive
Chairman, appointed as Chairman
1 April 2020



Peter Simpson
Chief Executive Officer



Steve Buck
Chief Financial Officer



Dame Polly Courtice
Senior Independent
Non-Executive Director



Natalie Ceeney
Independent Non-Executive
Director



Zarin Patel
Independent
Non-Executive Director



Paul Whittaker
Independent Non-Executive
Director



John Barry
Non-Executive Director,
appointed 23 November 2020



James Bryce
Non-Executive Director



Niall Mills
Non-Executive Director



Duncan Symonds
Non-Executive Director

At the date of these financial statements, in addition to the Independent Chairman John Hirst, there were four Independent Non-Executive Directors, two Executive Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

The company's Chairman is also the Chairman of the company's ultimate parent company, AWG. The 2020 Code does not prohibit chairmanship of other companies in the Group, and on appointment as Chairman, the Board considered John Hirst (who was appointed as Chairman with effect from 1 April 2020) to be independent in judgement and character, notwithstanding the existence of his other directorships.

John Hirst is 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 2.3 of the 2020 Code, which might otherwise call into question independence, apply.

The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2021. The Board concluded that all the Independent Non-Executive Directors remain independent of management and are not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2020 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 anglianwater.co.uk/governance.

Where Directors have concerns about the operation of the Board or the management of the company that cannot be resolved, these would be recorded in the Board minutes, but no such concerns have been raised.

Board structure and effectiveness

OFWAT PRINCIPLE: The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

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 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.

The Board has appointed Dame Polly Courtice as the Senior Independent Non-Executive Director. 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 anglianwater.co.uk/governance.

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. On appointment to the Board, all Directors are required to declare all their interests; any new interests held by Directors are considered at the start of each Board meeting and, where relevant, interests are declared prior to any substantive discussions. In addition, a further review of all Directors' interests is undertaken annually. The Board has approved a protocol for dealing with conflicts of interests, which is available on the company's website (anglianwater.co.uk/governance). At its meeting in January 2021, the Board considered the transfer of surplus land to AWG. Prior to the matter being considered, one Director declared an interest as they were also a director of the parent company of the land valuer. As such, pursuant to the company's Articles of Association, the Director did not vote on the matter.

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 skills, knowledge, experience and diversity. 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 overleaf.

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; all decisions made during the year were unanimous.

Audit Committee

Details of the terms of reference of the Audit Committee, its membership and its activities during the year are contained in the [Audit Committee Report](#). All members of the Audit Committee are Independent Non-Executive Directors and its chair is Zarin Patel.

Nomination Committee

Details of the terms of reference of the Nomination Committee, its membership and its activities during the year are contained in the [Nomination Committee Report](#). The majority of the members of the Nomination Committee are Independent Non-Executive Directors and its chair is John Hirst.

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 [Directors' Remuneration Report](#). The majority of the members of the Remuneration Committee are independent and its chair is Paul Whittaker.

The Board believes that Committees have sufficient independent membership to ensure that high-quality decisions can be made that best address diverse customer and stakeholder needs.

Board processes

The Chairman is responsible for ensuring that Directors receive timely, accurate and clear information. To ensure 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.

Read the Audit Committee Report on pages 114-119

Read the Nomination Committee Report on pages 120-122

Read the Directors' Remuneration Report on pages 123-143

Corporate Governance Report

for the year ended 31 March 2021 continued

Board composition and roles

Independent Chairman

John Hirst

Responsible for leading the Board and for its overall effectiveness in directing the company. 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. Responsible for ensuring that the Directors receive accurate, timely and clear information.

Chief Executive Officer

Peter Simpson

Responsible for the leadership and day-to-day functioning of the company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.

Chief Financial Officer

Steve Buck

Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the company.

Senior Independent Non-Executive Director

Dame Polly Courtice

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.

Independent Non-Executive Directors

Natalie Ceeney

Zarin Patel

Paul Whittaker

Responsible for bringing independence to the Board and its decision-making process. They particularly provide constructive challenge and strategic guidance, offer specialist advice and hold management to account.

Non-Executive Directors

John Barry

James Bryce

Niall Mills

Duncan Symonds

Responsible for providing constructive challenge to the Board's decision-making processes.

During the year, the Chairman held a meeting with the Independent Non-Executive Directors without the presence of the Executive Directors.

All new Directors receive a thorough induction programme on appointment, which includes receiving a full background information pack, making visits to operational sites and receiving briefings from Executive Directors and senior managers. To ensure that there is a clear understanding of the responsibilities attached to being a Non-Executive Director in the sector, all Non-Executive Directors, including John Barry, who was appointed as a Director during the financial year, attend a pre-appointment meeting with representatives from Ofwat. As was disclosed in our 2020 Annual Integrated Report, following his appointment as Interim Chairman of the company, John Hirst met with the Chairman of Ofwat during the week following his appointment.

The company offers the Directors in-house training as necessary to aid their professional development and awareness of business and sector-specific issues.

In addition, the company offers to fund participation on externally provided training courses. All Directors are entitled to receive, at the company's expense, independent professional advice on any matters relating to their responsibilities as a Director.

Periodically, the Board visits different business locations to enable the Directors to meet with a range of employees, and to update and maintain their knowledge of and familiarity with the company's operations. Due to the restrictions in place because of Covid-19 the Board was unable to visit any business locations during the financial year. However, in September 2020 an online investor day was held, which focused on innovation (see page 58). The Board was invited to a series of virtual presentations highlighting areas such as Ofwat's Innovation Fund and the progress on the 2030 Net Zero Routemap.

Information on the annual evaluation of the performance of the Board and the Chairman can be found in the [Nomination Committee Report](#).

See pages 120-122

Board diversity and skills

The company's Board offers a diverse set of skills, which supports the company in the delivery of its long-term strategy. During the year, the Directors were asked to complete a skills matrix. The skills and experience captured in the matrix were aligned with the company's key stakeholders, namely: customer, communities, employees, environment, regulators, governments, investors and suppliers. When completing the matrix, the Directors were asked to award themselves a score, which, when added together, allowed the Nomination Committee to consider where there were areas of lower levels of skills or experience. This exercise has allowed the Committee to consider whether future recruitment should focus on addressing these areas and/or whether upskilling present members of the Board would be a better solution. There will be further discussion of skills and diversity when the Nomination Committee meets later in the year. Further information on the skills and experience of the Directors can be found in the [Directors' biographies](#).

See pages 100–103

	Independent Chairman	Executive Directors		Independent Non-Executive Directors				Non-Executive Directors				Total
	John Hirst	Peter Simpson	Steve Buck	Natalie Ceeney	Polly Courtice	Zarin Patel	Paul Whittaker	John Barry	James Bryce	Niall Mills	Duncan Symonds	
Customers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Environment	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓
Communities	✓	✓		✓	✓					✓		✓
Employees (including experience of health, safety and wellbeing)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Regulators	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓
National and local government	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Investors / banks and ratings agencies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Engineering (Key suppliers)		✓								✓	✓	✓
Digital/ technology (Key suppliers)	✓	✓		✓		✓			✓	✓	✓	✓

✓ — some experience in this area but it has not been central to the relevant Director's role

✓ — significant amount of experience in this area

Corporate Governance Report

for the year ended 31 March 2021 continued

Board leadership and transparency

OFWAT PRINCIPLE: The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Board meetings

The Board held eight scheduled meetings during the year ended 31 March 2021. In addition, the Board held two scheduled meetings between 31 March 2021 and the date of signing this report, which all Directors attended. 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 Chairs 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 2021 is shown in the table below. All decisions made by the Board during the year were unanimous.

During the year, 17 other Board meetings were held, some at short notice, to deal with the following matters: delegating authority to the Treasury function; the prospectus renewal; financing matters including bond issues and the annual renewal of the liquidity facility; the approval of the charges scheme; the provision of a statutory certificate to Ofcom, pursuant to which the company is permitted to install electronic equipment in the public highway; matters relating to the relocation of the Cambridge Waste Water Treatment Plant; approval of the external auditor's letter of engagement; and the company's interim results.

A further meeting of the Remuneration Committee was held on 26 May 2021, which all members attended. Further meetings of the Audit Committee were held on 26 May and 7 June 2021, which all members attended.

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
John Hirst**	8/8	4/4	2/3	5/5
John Barry	3/3	-	-	-
James Bryce	8/8	-	3/3	5/5
Steve Buck*	8/8	4/4	-	5/5
Natalie Ceeney	8/8	3/4	-	5/5
Dame Polly Courtice	8/8	-	3/3	5/5
Niall Mills	6/8	-	2/3	3/5
Zarin Patel	8/8	4/4	2/3	-
Peter Simpson*	8/8	4/4	3/3	5/5
Duncan Symonds***	8/8	-	3/3	5/5
Paul Whittaker	8/8	4/4	3/3	5/5

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

** Not a member of the Audit Committee but attended by invitation.

*** On 21 July 2020, Duncan Symonds replaced Manoj Mehta as member of the Nomination and Remuneration Committees. Duncan attended Committee meetings as Mr Mehta's alternate, prior to his appointment to the Nomination and Remuneration Committees.

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 76–93 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 2021, 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 2021 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.

Other disclosures

An explanation on the following can be found in the Strategic Report:

- the Group's structure *Pages 26–27*
- dividend policy *Pages 37–38*
- dividends paid. *Page 37*

The Directors' Remuneration Report explains the company's executive pay policy and how the criteria for awarding short- and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied.

See pages 123–143

Compliance with the BLTG Principles and the 2020 Code

As detailed earlier in this report, the Board had incorporated the BLTG Principles (and its supporting provisions) into the 2020 Code and therefore, by reporting against compliance with the 2020 Code, the Board is also reporting against compliance with the BLTG Principles. The Board confirms that it has complied with the 2020 Code.

This report was approved by the Board of Directors on 16 June 2021.

Claire Russell

Company Secretary
16 June 2021

Audit Committee Report

Directors' biographies are available on pages 100-103



Committee members

CHAIR

Zarin Patel

OTHER MEMBERS

Natalie Ceeney

Paul Whittaker

MEETINGS

Four

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Steve Buck, Chief Financial Officer; members of the Anglian Water Group Limited Audit Committee; representatives of the internal and external auditors; Wayne Young, Group Financial Controller; and Claire Russell, Company Secretary.



Available to view at anglianwater.co.uk/governance

Audit Committee's terms of reference
Whistleblowing policy

Role of the Committee

The principal role of the Audit Committee is to examine 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 the significant accounting judgements and estimates they contain.
- Review the annual and interim results and where requested by the Board review the content of the Annual Integrated Report as a whole.
- Review the Annual Performance Report, to ensure it is fair, balanced and understandable as well as reviewing significant financial returns to regulators.
- Review the integrity of the company's systems of internal control.
- Review both the company's procedures for detecting fraud and the company's systems and controls for the prevention of bribery, and receive reports arising from the whistleblowing process.
- 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 and quality of the audit process.
- Review and approve the annual internal and external audit plan.
- Monitor the provision of non-audit services by the external auditor.



"The Audit Committee plays a key role in monitoring the integrity of the Company's financial reporting, reviewing the material financial judgements and assessing the internal control environment."

Membership and attendance

The Board is satisfied that sufficient members of the Committee have recent and relevant financial experience. Zarin Patel is a chartered accountant and was formerly Chief Financial Officer of the BBC and an Independent Member of the Audit & Risk Committee of John Lewis Partnership plc. She is currently an Independent Member of the Audit & Risk Committee of HM Treasury and is Chairman of the Audit & Risk Committee of Pets at Home Group PLC. Zarin Patel 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.



Available to view at anglianwater.co.uk

Paul Whittaker held a number of regulatory roles at National Grid. All members of the Committee are considered to have competence relevant to the sector in which the company operates.

Representatives from the company's external auditor and internal auditor also attended all or part of the Committee's meetings. In addition, members of the Committee met separately with representatives of the external auditor and internal auditor without management being present. During the year the Committee also received presentations from members of senior management on key topics such as cyber risk. The Company Secretary is Secretary to the Audit Committee.

Main activities in the 2020/21 financial year

Financial reporting

- Reviewed and discussed management's reports on the final results (for the year ended 31 March 2020) and the interim results (for half-year ended 30 September 2020). As part of this process the Committee considered 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, valuation of defined benefit pension scheme, derivative accounting and classification of costs between operating and capital expenditure) and the integrity of the audit process. Following this robust review, the Committee recommended that the Board approve both the annual and interim results. In respect of the Annual Integrated Report 2020 the Committee recommended to the Board that the report was fair, balanced and understandable, and provided the information necessary for shareholders to assess the company's performance, business model and strategy.
- Considered the company's going concern and long-term viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the impact of Covid-19 and the referral of the Final Determination to the Competition and Markets Authority, the company has adequate liquid resources to meet its obligations as they fall due over the next 12 months and to remain financially viable over the 10-year period to 31 March 2030.
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment (further information can be found in the Risk management and internal control section below).

Regulatory disclosures

- Reviewed the integrity of key regulatory statements and certificates as required by Ofwat, including the Certificate of Adequacy and the Board Statement of Company Direction and Performance, and recommended their approval to the Board.

External audit

- Reviewed the proposed audit plan for the 2020/21 statutory audit, including key audit risks and level of materiality applied by the external auditor, audit reports from them on the financial statements and the areas of particular focus for the 2020/21 audit (further information can be found in the External auditor section below).
- Assessed the effectiveness of the external auditor and made a recommendation to the Board on the reappointment of Deloitte as the external auditor.
- Agreed the statutory audit fee for the year ended 31 March 2021.
- In respect of the 2019/20 year-end statutory audit, the Committee reviewed progress made by the external auditor against the agreed audit strategy, with a focus on the previously agreed key audit matters for the 2019/20 audit and the impact of Covid-19.

Internal audit

- Agreed the scope of the internal audit plan for 2021/22 and considered the impact of the upcoming changes in structure of the internal audit function (further information can be found in the Internal audit section below).
- Reviewed internal audit reports and satisfied itself that management was in the process of resolving any outstanding issues or actions.

Other

- Received updates on the cyber risk landscape. These updates focused on both how the company manages risk of business interruption or adverse reputational impact due to cyber security events and also the cyber-specific risks associated with Covid-19.
- Monitored whistleblowing allegations and the associated investigations undertaken by management (further information can be found in the Whistleblowing, anti-fraud and anti-bribery processes section below).
- Considered actual and potential material litigation.
- Considered and supported a management proposal to refine the methodology for calculating the bad debt provision rates in relation to customer debt.

Audit Committee Report continued

- Considered the implementation of an audit exemption for certain Group companies, as permitted under section 479a of the Companies Act 2006.
- Reviewed reporting requirements, including climate change reporting.
- Received an update on the 'Independent Review into the Quality and Effectiveness of Audit' by Sir Donald Brydon and the associated consultation issued by the Department of Business, Energy and Industrial Strategy and agreed a strategy to develop a framework for reporting of effectiveness of internal controls over financial reporting.

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 assessing and managing emerging and principal risks is included in the Strategic Report, 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 their 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. Throughout the year, the Board receives presentations or papers from Management regarding the management of key risks.
- 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, anti-fraud and anti-bribery processes

Whistleblowing

The Committee is responsible for reviewing the adequacy and security of the company's arrangements for its employees, alliance partners and contractors to raise concerns, in confidence, about possible wrongdoing. The Committee is also responsible for ensuring that these arrangements support appropriate and independent investigation of such matters and that follow-up actions are undertaken where necessary. The Group has a whistleblowing policy whereby an individual can, in confidence, raise a concern relating to any wrongdoing or malpractice which may have an impact on Anglian Water's business such as: a criminal offence (such as fraud or bribery); a failure to comply with any legal obligations; a miscarriage of justice; danger to the health and safety of an individual or the public and; damage to the environment.

Under the policy individuals 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 managed by an independent provider, SeeHearSpeakUp.

The independent provider maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director, Group Financial Controller, Group People Director and Head of Integrated Assurance (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 policy, the whistleblower must be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept regarding 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 and will be offered advice and support.

See pages
76-80

The Committee receives regular reports on whistleblowing allegations reported during the year. This gives the Committee the opportunity to satisfy itself that management has undertaken appropriate investigations into any allegations. Any significant reports arising from the whistleblowing process would be reported to the Board.

Anti-fraud and anti-bribery

The company has policies in place to address the risk of bribery and failure to prevent criminal facilitation of tax evasion and sets out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality. All employees must comply with these policies and the Bribery Act 2010. All employees are required to complete training on these policies and an annual review of compliance against these policies and processes is undertaken. Any allegation of fraud or bribery which was raised through the whistleblowing system would be investigated and reported to the Committee, via the process described above.

Internal audit

The provision of internal audit services was outsourced to PricewaterhouseCoopers (PwC) for the year ended 31 March 2021. PwC was appointed by the company on 1 August 2016 for a four-year term following a competitive tendering process. In November 2019, the Committee approved a one-year extension to the contract to 31 July 2021. When the contract with PwC ends, the delivery of the internal audit services will be overseen by the newly appointed internal Head of Integrated Assurance with specialist support provided by PwC. The Head of Integrated Assurance reports jointly to the Chief Financial Officer and the Chair of the Committee.

The company's internal audit plan is approved on an annual basis and progress is reviewed by the Committee during the year. Prior to approving the internal audit plans for both the 2020/21 and 2021/22 financial years, the Committee was given the opportunity to review the plans, discuss them in detail with PwC and make amendments. In March 2020, the Committee approved the internal audit plan for 2020/21, whilst recognising the challenges the company was facing in relation to Covid-19. It was therefore agreed that there may be the need to flex the plan over the course of the financial year. The internal audit plan for 2021/22 was approved by the Committee at its meeting in March 2021. 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 developed having regard to key risks and also allows for review of key activities that merit either an annual or rotational review.

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 Information Services framework, capital controls, market performance reporting, developer services, customer debt, supply chain resilience, treasury operations and the Common Terms Agreement.

The Committee considers the internal audit process to be effective by virtue of the active contribution of the Committee to the development of the annual internal audit plan, the regular monitoring of progress against the plan and continued discussions with the internal audit function.

External auditor

The Committee has primary responsibility for overseeing the relationship with Deloitte LLP (Deloitte), the external auditor, including assessing its performance, independence and effectiveness and making a recommendation to the Board in respect of the auditor's appointment or removal.

Deloitte was awarded the contract for external audit services in September 2016, following a competitive tender process. The contract was for a four-year term which could be extended for up to a further four years, either annually or for any alternative period. The initial four-year contract expired in September 2020 and was extended in March 2020 until September 2021. At its meeting in May 2021 the Committee, after careful consideration, agreed to extend Deloitte's contract for a further year until September 2022.

Effectiveness of the external auditor

The Committee, on behalf of the Board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. At the Committee meeting in November 2020, Deloitte presented its proposed audit strategy for the 2020/21 year-end audit. Its report included the proposed scope of the audit, including its view of materiality; significant risks to the audit process and its response to these risks; and other areas of audit focus. After careful consideration the Committee approved the audit strategy. Deloitte provided an update in relation to the audit plan at the Committee's meeting in March 2021, providing an opportunity for the Committee to monitor progress.

Audit Committee Report continued

See page 171

In addition, regular meetings are held throughout the year between the Committee members and key members of the audit engagement team, without management present, in order to encourage open and transparent feedback by both parties. Members of the Deloitte team also meet with management at regular intervals during the annual audit process.

To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee also reviews annually 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.

For the year ended 31 March 2021, the Committee was satisfied with the performance, objectivity, audit quality and independence of Deloitte as the external auditor.

External auditor independence

There are two main ways in which the Committee assesses the independence of the external auditor.

- 1 Firstly, the Committee takes into account the information provided by Deloitte as part of the statutory audit process, that the audit engagement team, and others in the firm as appropriate, were independent of the company. In addition, Deloitte confirmed that it had not identified any relationships with the company, Directors, senior management and affiliates that Deloitte considers may reasonably be thought to bear on its objectivity and independence. The audit engagement partner also rotates every five years. The current lead audit partner is James Leigh who will be replaced following the completion of the 2020/21 statutory audit.
- 2 Secondly, the Committee recognises that a key factor that may impair the external auditor's independence and objectivity is a lack of control over the volume and/or value of non-audit services. No fees were incurred during the year for other non-audit services. However, if the external auditor were to provide non-audit services they would have to be compliant with the policy for fees on non-audit work carried out by the external auditor, as approved by the Committee. Any request to use the external auditor to carry out non-audit work had to be authorised by both the Chief Financial Officer and the Chair of the Audit Committee. In addition, there is a limit on the level of fee that could be paid to the external auditor for non-audit work. Under the policy on fees for non-audit services, only work permitted by the Financial Reporting Council's (FRC) 'whitelist' may be undertaken by the external auditors and the level of non-audit fees is restricted to 70 per cent or less of the average of the previous three years' audit fees.

The fees paid to the external auditor during the year are set out in note 6 to the [financial statements](#) on page 171. In addition to the fees payable in respect of the audit of the company and consolidated financial statements, other audit-related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results.

Taking into account the findings in relation to the effectiveness of the audit process and in relation to the independence of Deloitte, the Committee was satisfied that Deloitte continues to be independent, and free from any conflicting interest with the company.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process as detailed on page 122. No material shortcomings in the operation of the Committee were highlighted.

Annual Integrated Report

At the request of the Board, the Committee considers whether, in its opinion, this Annual Integrated Report (AIR), taken as a whole is fair, balanced and understandable and whether it provides the information necessary for [shareholders to assess](#) the company's position, performance, business model and strategy. To make this assessment, the Committee initially considered and approved the narrative structure and proposed themes of the report at its meeting in March 2021. The Committee then received copies of the AIR during the drafting process to enable sufficient time for comment and review and to ensure overall balance and consistency. At the Committee meeting in May 2021, Deloitte presented the results of its audit work and presented their findings on their significant risks. These were considered by the Committee (see below for more information). On the recommendation of the Committee, the Board approved the AIR and the associated Statement of Directors' Responsibilities which can be found on page 146.

Detailed on page 146

Key issues in relation to the financial statements

The Committee considers a range of key 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 Committee in the form of a report prepared by management called the Key Issues and Areas of Judgement Report.

Bad debt provision: The Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience, current conditions and estimates of future economic conditions. Management calculates the bad debt provision by firstly evaluating the estimated recoverability of trade receivables and records a provision based on experience, primarily cash collection history, and then adjusts, as necessary, for forward-looking factors such as a change in economic conditions. Following agreement by the Audit Committee in March 2021 management have enhanced their provisioning methodology to provide better granularity of debt less than one year old. As part of this review management have taken the more prudent view that, whilst not yet billed and substantially offset by payments already received, the measured income accrual carries an element of bad debt risk. In its forward-looking review, the Committee considered management's assessment of the potential impact of Covid-19 on the bad debt charge based on market data and a review of post year-end cash collection rates. Further information can be found in notes 2(b) and 16 of the financial statements.

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 2021, 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 35.9 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. The value of the measured income accrual is disclosed in note 16 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.

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(l) 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 be found in note 2(a) of the financial statements.

Going concern and viability

At its meetings in May and June 2021, the Committee considered the company's preliminary results announcement, Annual Integrated Report and associated disclosures, including its going concern and viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the continuing impact of Covid-19, the company has adequate liquid resources to meet its obligations as they fall due in the next 12 months and to remain financially viable over the 10-year period to 31 March 2031. The Committee reviewed papers presented by management on its assessment of the company's going concern and longer-term financial viability based on budgets, business plans and cash flow forecasts and the stress testing performed based on the company's principal risks and the specific risks relating to Covid-19. The Committee considered the appropriateness of the scenarios modelled, the feasibility of management to deliver any required mitigations and the level of disclosure proposed and satisfied itself that the going concern basis of preparation is appropriate and that the company is financially viable over the duration of its assessment period.

This report was approved by the Board of Directors on 16 June 2021.

Zarin Patel

Chair of the Audit Committee
16 June 2021

Nomination Committee Report

Directors' biographies are available on pages 100-103



Committee members

CHAIR

John Hirst

OTHER MEMBERS

James Bryce
 Polly Courtice
 Niall Mills
 Zarin Patel
 Duncan Symonds
 Paul Whittaker

MEETINGS

Three

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Susannah Clements, Group People and Change Director; and Claire Russell, Company Secretary.

COMPOSITION OF THE COMMITTEE

On 21 July 2020, John Hirst replaced Polly Courtice as Chair of the Committee and Manoj Mehta (who was an investor-appointed member of the Nomination Committee but was not a member of the Board) was replaced by Duncan Symonds as a member of the Committee.



Available to view at anglianwater.co.uk/governance

Nomination Committee's terms of reference
 Diversity and Inclusion policy
 Gender Pay Gap Report

Role of the Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors.

The duties of the Nomination Committee include:

- Reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) 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, how to support the development of a diverse pipeline, 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 its continued ability 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

Board changes

As detailed in last year's report, on 31 March 2020, the company's Chairman, Stephen Billingham, retired from the Board. After careful consideration, the Committee recommended to the Board that John Hirst replace Stephen Billingham as Interim Chairman with effect from 1 April 2020. Having agreed the key skills and experience required by any individual appointed to the role, the Committee, led by Dame Polly Courtice, began the search and selection process for a permanent Chairman.



"The Committee recognises that inclusion is vital to the success of the organisation, and as such, takes a close interest in the company's approach to inclusion and diversity."



Available to view at anglianwater.co.uk

Further information on inclusion can be found on page 56

The Committee was supported in the search process by Korn Ferry (a global executive recruitment firm which was appointed after a competitive tendering process, and which does not have any other connection with the company or individual Directors other than supporting the recruitment of Board appointments). Early in the 2020/21 financial year, the Committee reviewed a long list of candidates, provided by Korn Ferry, and a sub-committee undertook to interview a number of the candidates. Following a decision to step down from some of his other commitments, John Hirst then expressed an interest in taking on the role of Chairman on a permanent basis and was interviewed by Korn Ferry against the previously agreed specification.

At its meeting held in June 2020, the Committee carefully considered a report from Korn Ferry, summarising the key points arising from their interview with John Hirst; the Committee then unanimously recommended to the Board that John Hirst should be appointed as Chairman on a permanent basis. The Board approved John Hirst’s appointment as Chairman at its meeting in July 2020.

Dame Polly Courtice’s and Natalie Ceeney’s terms of appointment expired on 31 March and 24 April 2021 respectively. At its meeting in March 2021, the Committee, after careful consideration, recommended to the Board that both Dame Polly Courtice and Natalie Ceeney should be reappointed for a further three-year term.

Inclusion

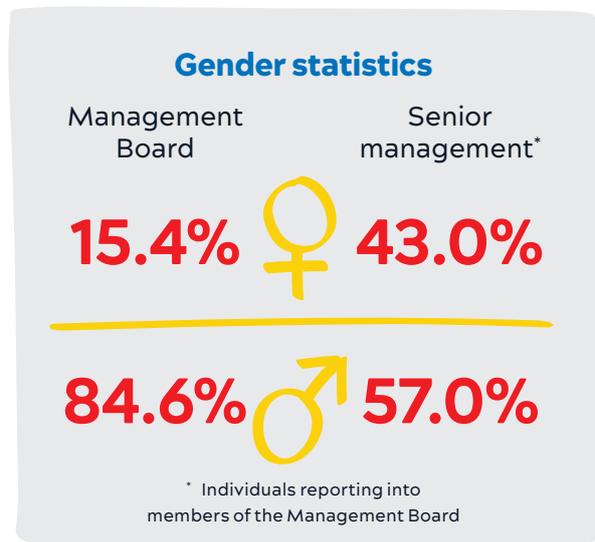
The Committee recognises that inclusion is vital to the success of the organisation, and as such, takes a close interest in the company’s approach to inclusion and diversity. During the year the Committee had the opportunity to further understand, discuss and challenge the company’s approach to this area. The Committee reviewed the progress already made, the 12-month plan and key deliverables and the launch of the Strength in Diversity project. Areas of achievement included: the launch of the Inclusion Steering Community; the use of gender-neutral wording on job advertising to encourage applications from more diverse backgrounds; and the sponsorship of events such as STEM Fest and Lincoln Pride. The aims of the Strength in Diversity project include:

- Establishing strong long-term connections across educational settings and community groups in a small number of towns across the region.
- Building long-term talent pipelines, leading to a more inclusive workforce in the next five to ten years.
- Applying the learnings from the company’s work in Wisbech which centres around providing opportunities for school leavers to develop skills in a college setting and apprenticeships.
- Considering broader ways to support communities.

In considering the Inclusion Strategy, which it fully endorsed, the Committee also reflected on the challenges and constraints of improving inclusion and reflected that the strategy aimed to improve inclusion over the longer term.

At Board level, the Committee has not set a specific female Board member quota. However, as at 31 March 2021, 27.3% of the Board were female.

As at 31 March 2021, the gender balance of the Management Board and those employees who directly reported into Management Board members is detailed below:



Succession planning

An important role of the Committee is to review the development, succession planning and talent pool for the Board, Management Board and other senior roles to identify both talent strengths and gaps.

At its meeting in November 2020, the Committee considered a Board skills matrix, which the Committee used as a basis for a discussion on areas where the Board may have a lower level of skill or experience. The Committee agreed to keep the Board skills matrix under review as part of Board succession planning.

During the year the Committee also undertook a review of senior management talent and succession planning. The review concentrated on the individuals within the Group who are considered to have the potential to carry out a Management Board role in both the near and longer term.

Further details of the matrix can be found on page 111

Nomination Committee Report continued

As part of the review, the Committee also considered the plans in place to support these individuals during the different stages of their development, as well as the progression opportunities available to all individuals across the business. The Committee considered the diversity of the talent pipeline, recognising both the strengths and challenges associated with this, with a focus on gender and ethnic diversity and the impact of an ageing workforce.

The Committee has opportunities to engage with those individuals who are part of the succession plan at Board meetings, market stall events and site visits.

See 'Creating an inclusive workplace' on page 56

Board and Committee evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. A thorough external evaluation of the Board and its Committees was conducted during the year, facilitated by Bernice Dunsmuir of Constal Limited, under the direction of the Chairman. Constal has no other connection to Anglian Water. The evaluation took the form of one-to-one interviews between Ms Dunsmuir and each Director. Areas the review covered included: boardroom behaviours and dynamics; the company's purpose and culture; the structure and processes around Board meetings; Board composition and structure, including succession; and the company's strategy. Constal collated and analysed the results of the interviews and prepared a report, which was presented to the Board at its meeting in March 2021 for consideration and debate.

Constal concluded that overall, the review had been very positive and commented that the Board had a strong culture of openness and transparency, that there were high levels of trust and respect between Directors, that information provided to the Board was of good quality and that Board members were well prepared for meetings and wished to add value. No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the review and there were no serious concerns around key areas such as strategy, succession and risk management.

Certain areas were identified during the Board evaluation process as requiring additional focus, which included:

- Planning for the Business Plan for the period 2025—2030.
- Holding additional training sessions for Non-Executive Directors on company-specific matters such as regulatory issues and financial structures.
- Further developing the company's purpose, both within the company and externally.
- Providing the Board with an annual planner of agenda items.

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 performance of the Chairman. No areas of concern were raised.

The Chairman conducted a review of each individual Director and confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board.

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 16 June 2021.

John Hirst

Chair of the Nomination Committee
16 June 2021

2021 Directors' Remuneration Report

Directors' biographies
are available on
pages 100-103



Committee members

CHAIR

Paul Whittaker

OTHER MEMBERS

James Bryce
Natalie Ceeney
Dame Polly Courtice
John Hirst
Niall Mills
Duncan Symonds

MEETINGS

Five

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Steve Buck, Chief Financial Officer; Susannah Clements, Group Director of People and Change; Claire Russell, Company Secretary

COMPOSITION OF THE COMMITTEE:

On 21 July 2020 Manoj Mehta (who was an investor-appointed member of the Committee but was not a member of the Board) was replaced by Duncan Symonds as a member of the Committee.



Available to view at
anglianwater.co.uk/governance

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 2021 and the policy for 2021/22.

Company performance in 2020/21

Remuneration outcomes in 2020/21

As objectives were set at the beginning of the year, the Remuneration Committee has felt it appropriate to evaluate in its deliberations the leadership's response to an unprecedented set of unfolding events, many of which were not within their control. In assessing the performance of the leadership team, the Committee has taken into account:

- the decision not to furlough colleagues or access government funding, even though a number of employees were unable to carry out their functions, particularly in the early stages of the pandemic;
- the challenges of fundamental changes in water demand, specifically during the summer months, when supply demands broke all records, leading to operational challenges while still in the grip of various lockdowns;
- the added complexities of the ongoing CMA hearings and the extra management time needed to ensure detailed and considered responses were submitted;
- the extreme wet weather which began on 23 December 2020, which resulted in record flooding across East Anglia and extraordinary operational demands;
- that customer care remained at exceptional standards throughout, with services almost universally uninterrupted by extreme weather or operating changes;
- and, not least, the ongoing response to a very different way of working with safety and well-being at its heart.

The Committee believes that the Executive Directors and leadership teams have demonstrated exceptional leadership over a sustained period of time, and risen to the challenges in a thoughtful, coordinated and professional manner.

The Remuneration Committee set a series of targets which ensured that delivery to customers was at the heart of the remuneration arrangements.



"The Committee believes that the Executive Directors and leadership teams have demonstrated exceptional leadership over a sustained period of time, and risen to the challenges in a thoughtful, coordinated and professional manner."



Available to view at
anglianwater.co.uk

2021 Directors' Remuneration Report continued

Customer satisfaction: It has been a challenging year for customer satisfaction for several reasons. We saw a positive spike in satisfaction at the start of the year due to our customer support during Covid-19 but then experienced a very challenging summer, due to Covid- and weather-related increases in demand followed by an exceptionally wet winter. We are therefore pleased to be ending the year less than 1 point from a top three position across the industry. Equally, our customer service under the Developer Measure of Experience (DMeX) measure was heavily influenced by the effect of the pandemic on development activity. We ended the year in fifth position with a good action plan to target improvements.

Customer delivery: The second component, the customer delivery scorecard, is linked to the company's performance in relation to a small number of outcome delivery incentives (ODIs) which our customers determined to be of greatest importance to them. In extremely challenging circumstances, across the basket of measures the base target was only missed for two measures and all other measures achieved between the base and stretch targets.

Customer efficiency: The final component relates to financial efficiency savings which are shared with customers. Despite the challenges of Covid, the stretch target was achieved.

As a result of this performance, and the personal performance of each individual Executive Director, bonus payments via the Deferred Bonus Scheme for 2020/21 were between 79.2 and 84.2 per cent of maximum.

On 31 March 2021, the performance period ended for long-term incentive awards granted in 2018.

The percentage of award vesting was 56 per cent. However, the Committee was mindful that during the period, the company had slipped from a 3-star Environmental Performance Assessment (EPA) rating to a 2-star rating for one of the years of the performance period, although performance had been recovered in the following year. The Remuneration Committee reviewed this important measure, which is on one of the listed detractors to the scheme, and determined that the award should be reduced by 10 per cent to reinforce the importance of environmental performance as an underpinning element of the scheme.

The Remuneration Committee reflected on the exceptional and unprecedented challenges the company had faced across the year and the outstanding leadership by the Executive Directors over this period. The Committee discussed the contractual bonus arrangements and associated bonus payment to be awarded and felt an additional special bonus was appropriate above these contractual commitments. The Committee therefore used its discretion and awarded special bonuses to Mr Simpson and Mr Buck. Full details of these payments received in April 2021 can be found in table 7.

Other key decisions

The Committee carried out a review of executive incentive design in advance of the year beginning April 2021 in light of the CMA outcome and ongoing impacts felt as a result of the Covid-19 pandemic.

The previous set of targets comprised a subset of customer satisfaction and delivery ODIs, focussing on what customers considered most important at the start of the year. However, due to circumstances, some key ODIs which were not included, such as per capita consumption, proved to be key in the year that followed. Equally, the CMA Redetermination reinforced the principle that delivery of ODIs underpinned our commitments to customers. Given these two circumstances, instead of a subset of ODIs, the Committee has decided that performance across all ODIs which carry reward or penalty is the most appropriate way of measuring the level to which the company is delivering to customers and outperforming customer expectations.

Given this, the Committee has determined that for the 2021/22 performance year, the Deferred Bonus Scheme will have two sets of measures aligned to our obligations and to the annual Business Plan:

Customer delivery: This measure consists of the outcome of all reward/penalty-bearing ODIs. The relative weight of these ODIs is reflected in the level of reward or penalty that Ofwat has deemed to reflect the potential level of outperformance, and this has been reinforced and refined by the recent CMA Redetermination. Therefore a simple measure of overall reward/penalty will be used to determine the overall level of delivery to customers during the year.

Customer efficiency: A measure of financial efficiency shared with customers. This remains the same as last year, ensuring that customers receive an efficient service, and also that customers receive benefit from any financial outperformance.

In addition to these customer-focused measures, the Executive Directors will have specific targets that focus on their broader roles across the Anglian Water Group companies.

Changes to the Board

Details of changes in the composition of the Board during the year can be found on page 108 of the Corporate Governance Report. All relevant remuneration information for all Directors who served during the year is included in this report.

Paul Whittaker

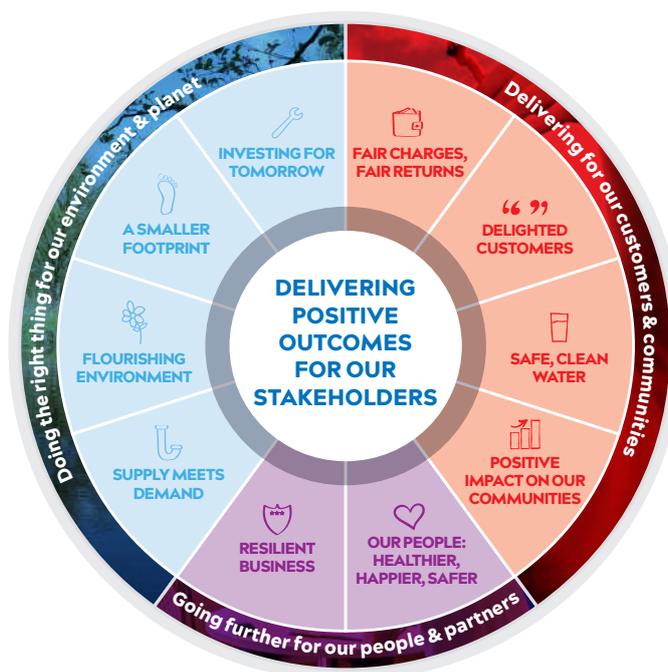
Chairman of the Remuneration Committee
16 June 2021

At a glance

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, and with a significant proportion being performance-related, and therefore only being 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 their overall remuneration, is directly linked to the achievement of these outcomes through the ODI measure. More detail is provided in table 10 on page 133.

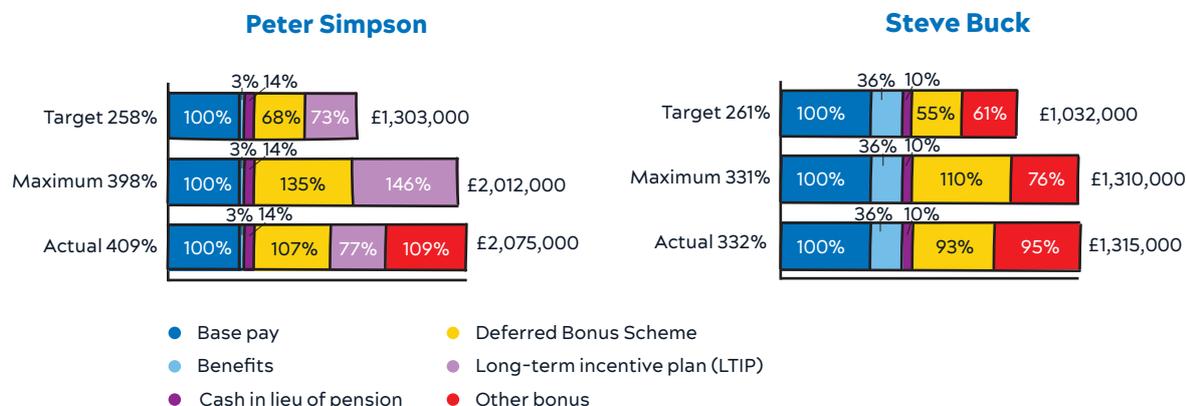
Consideration of shareholder views

Non-Executive Directors representing the ultimate owners of the company sit alongside Independent Non-Executive Directors (who form the majority) on the Committee and are involved in monitoring the performance of the Executive Directors, and making recommendations to the Board on remuneration levels, payments and changes to reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions, and that the link between pay and performance is robustly managed.

Breakdown of executive remuneration over the year

Graph 1 below shows the proportion of payments related to variable and long-term performance for 2020/21. The design of the bonus arrangements includes both base and stretch targets. The graph therefore shows the percentage of base salary which could be earned for both minimum and maximum performance levels, as well as the actual outcome for 2020/21. The actual level of award includes payment of one-off bonuses to Peter Simpson and Steve Buck which are detailed later in the report.

Graph 1



Note: The adjusted 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 is deemed to be the most appropriate to use to demonstrate actual remuneration against maximum remuneration.

Steve Buck joined after the AWS LTIP plan was discontinued in April 2019. Steve Buck's benefits include relocation expenses that were reimbursed in line with policy agreed as part of his appointment.

2021 Directors' Remuneration Report continued

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year that ended 31 March 2021, and any changes for the year ending 31 March 2022.

Table 1

Element and link to strategy	Operation and performance metrics	Maximum potential for 2020/21	Changes for 2021/22
<p>Base salary</p> <p>To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.</p>	<p>Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by:</p> <ul style="list-style-type: none"> Role, experience and performance Average change in broader workforce salary Total organisational salary budgets. <p>Salaries are benchmarked against the FTSE 250 and other comparable utility companies.</p>	<p>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.</p>	<p>Peter Simpson has received no salary increase pending the outcome of further benchmarking which is being undertaken at the request of the Remuneration Committee in the light of Mr Simpson's increased responsibilities across the Group. The review is being undertaken by our remuneration consultants. Any changes will be reported in the next Remuneration Report.</p> <p>Steve Buck's salary increased in line with the wider workforce by 2%.</p>
<p>Benefits</p> <p>To increase the economic security of employees, and recruit and retain employees.</p>	<p>Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.</p>	<p>Peter Simpson:</p> <p>3.1% of base salary</p> <p>Steve Buck:</p> <p>4.3% of base salary</p> <p>31.3% of salary was claimed in final settlement for one-off relocation expenses agreed at time of appointment</p>	<p>No changes proposed.</p>
<p>Deferred Bonus Scheme</p> <p>To reward achievement of annual financial and strategic business targets and delivery of personal objectives.</p>	<p>Payment determined by the Committee following the year end.</p> <p>Company targets set and reviewed annually; these comprise a basket of financial and non-financial metrics, plus personal objectives. Awards for 2020/21 are based 60% on company performance and 40% on personal objectives.</p> <p>Personal objectives relate to areas of the business over which the individual has influence.</p> <p>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.</p>	<p>Peter Simpson</p> <p>Maximum: 135% of base salary</p> <p>Target: 67.5% of base salary</p> <p>Steve Buck</p> <p>Maximum: 110% of base salary</p> <p>Target: 55% of base salary</p>	<p>The balance between personal performance and company performance has been reset to 30% personal and 70% company in line with prior years. A one-off adjustment was made in 2020/21 to reflect additional focus on targets across the Group rather than the water company.</p> <p>The Committee updated the leaver provisions to allow it to apply discretion over entitlement to future payments and, in addition, greater flexibility over the payment date for all eligible employees.</p>

Element and link to strategy	Operation and performance metrics	Maximum potential for 2020/21	Changes for 2021/22
<p>Pension</p> <p>To attract and retain high-calibre individuals by providing good-quality pension arrangements.</p>	<p>AWS operates a defined contribution pension arrangement.</p> <p>Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.</p>	<p>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.</p> <p>In line with the wider workforce Steve Buck receives a total contribution of 12% of base salary, some of which he received in cash, and some of which is paid into his pension scheme.</p>	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	<p>The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role.</p> <p>The remuneration package of new Executive Directors will be consistent with the remuneration policy as set out in this report.</p>
Replacement awards	<p>The Committee will seek to structure any replacement awards such that 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.</p> <p>In determining quantum and structure of these commitments, the Committee will require reasonable evidence of the nature and value of any forfeited award.</p>
Sign-on payments / recruitment awards	<p>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.</p> <p>The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the company. In the majority of cases the maximum compensation would be no greater than 100% of salary.</p>
Relocation policies	<p>Where an individual is relocating to take up the role, the company may provide one-off benefits such as reasonable relocation expenses based on actual costs incurred.</p>

2021 Directors' Remuneration Report continued

Policy on payment for loss of office

Table 3

Component	Policy on exit
General	No Executive Director has any contractual rights to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance 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	The rights of Executive Directors to the payment of a deferred bonus in respect of the financial year in which the termination occurs are governed by the rules of the Deferred Bonus Plan. Where the reason for termination is a 'Good Leaver' reason (as defined in the Plan), the Director will be entitled to a reduced payment to reflect the Director's actual period of service in that financial year.
Deferred bonus payments	The last Award made under the LTIP vested in June 2021. The rules of the Deferred Bonus Plan apply in respect of the deferred element of Awards (including those made in 2019 and 2020) and contain provisions which allow for payment of a portion of the Award where the Director is a 'Good Leaver' (as set out above).

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 Deferred Bonus Scheme which is described further in the relevant sections of this report.

Table 4 shows the start date for each Executive Director.

Table 4

	Start date as Executive Director	End date as Executive Director
Peter Simpson	18 November 2004	n/a
Steve Buck	1 August 2019	n/a

At 31 March 2021, John Barry, 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 129.

External appointments

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with their non-executive appointment.

Consideration of employment conditions elsewhere in the company

In setting remuneration policy, the Committee ensures that the remuneration arrangements for the Executive Directors are appropriate when compared with those for other senior executives, and the wider workforce. In particular the Committee is kept informed on a regular basis of:

- the level of salary increase for the general employee population;
- company-wide benefit provision and any proposed changes; and
- overall spend on management bonus arrangements.

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.

The Anglian Water Services Corporate Governance Code 2020 (2020 Code) came into effect on 1 October 2020 and replaced the Anglian Water Services Corporate Governance Code 2019.

See pages 104–113

The 2020 Code combines Ofwat's BLTG principles and most of the provisions contained in the 2018 UK Corporate Governance Code that applies to listed companies. More information on compliance with the 2020 Code is detailed in the [Corporate Governance Report](#).

In line with the 2020 Code, the Board has appointed Duncan Symonds as the designated Non-Executive Director responsible for engagement with the workforce. Further information on the activities undertaken by Duncan Symonds during the year can be found in the section 172 statement on pages 62–65.

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 are available on the Anglian Water website at 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
Polly Courtice	1 April 2015	31 March 2024
John Hirst	1 April 2015	31 March 2024
Paul Whittaker	14 October 2013	13 October 2022
Natalie Ceeney	25 April 2018	24 April 2024
Zarin Patel	31 October 2018	30 October 2021

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.

Policy for determination of fees

The fees for the Independent 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 2020/21	Changes for 2021/22
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	All Non-Executive Directors' fees increased by 2% in line with the company-wide pay deal.
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	No change.

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.

2021 Directors' Remuneration Report continued

Annual Report on Remuneration

Table 7 – Single total remuneration figure (audited)

	Total paid by all AWG companies (£)													
	Base pay		Taxable benefits ¹		Pension including cash in lieu ²		Other bonus ³		Deferred bonus ⁴		LTIP ⁵		Total ⁶	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Peter Simpson ⁷	505,277	505,277	19,106	15,829	72,559	72,559	550,000	497,637	540,092	187,658	390,890	1,282,236	2,074,647	
Steve Buck ⁸	263,333	395,000	31,794	140,679	27,776	38,998	150,000	375,000	323,744	365,753		796,647	1,315,430	
Total Executive Directors	768,610	900,277	50,900	156,508	100,335	111,557	150,000	925,000	821,381	905,845	187,658	390,890	2,078,883	3,390,077

- Benefits include private health insurance, car allowance, private fuel and life assurance for all Executive Directors. Steve Buck's figure also includes £123,815 relocation expenses that were reimbursed in line with policy agreed as part of his appointment.
- Pension costs for Peter Simpson represent cash payments in lieu of contractual commitments as he does not save into the pension scheme. Pension costs for Steve Buck represent a mixture of cash payments in lieu of contractual commitments and company contributions into the pension scheme, paid in line with all other Anglian Water employees.
- The Remuneration Committee reflected on the exceptional and unprecedented challenges across the year the company had faced and the outstanding leadership by the Executive Directors over this period. The Committee discussed the contractual bonus arrangements and associated bonus payment to be awarded and felt an additional special bonus was appropriate above these contractual commitments. The Committee therefore used its discretion and awarded special bonuses to Peter Simpson and Steve Buck. As part of his joining arrangements Steve Buck was paid £300,000 to compensate for loss of payments from his previous employer under long-term incentives in place.
- The deferred bonus figure for 2019/20 has been updated owing to a true-up exercise where the Committee reviewed the ODI outcomes for 2019/20 for metrics not available at the time of the initial payment.
- This long-term incentive payment relates to the 2018 awards for the three-year performance period ending in March 2021. This includes the uplift of the base award by the average rate of return delivered over the performance period, which is a feature of the scheme designs. Peter Simpson agreed to waive his entitlement to 50% of his 2017 LTIP and the company made a contribution of £212,000 into the Employee Assistance Fund, which was set up to support employees across the Group suffering hardship as a result of the Covid-19 pandemic.
- Scott Longhurst, his predecessor, was included in the £3.2 million (2019/20 figure reported in June 2020). However, Mr Longhurst's total remuneration is no longer reported as he has now left the company.
- 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 paid by other parts of the AWG Group.
- For Steve Buck, 60 per cent of all remuneration costs are paid for by Anglian Water Services, with the remaining 40 per cent being paid by 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 the wider workforce did not receive an increase, the Board agreed there would not be a pay increase for Executive Directors from April 2020.

Table 8

	Base pay for Executive Directors effective 1 April 2020
Peter Simpson	505,277
Steve Buck	395,000

Deferred Bonus Plan Award (2020)

The Deferred Bonus Plan was implemented in 2019/20 after the Committee reviewed the previous short- and long-term incentive schemes. This plan rewards the delivery of outcomes that customers have indicated are most important to them, and which have been agreed with Ofwat as the most appropriate expression of these measures.

50 per cent of the Deferred Bonus Plan Award made in June 2020 is payable at the end of Year 1 (2021), with 25 per cent payable at the end of Year 3 (2024) and 25 per cent payable at the end of Year 4 (2025).

The performance condition applicable to the Award made in June 2020 has two elements, the first element relates to personal performance and the second element relates to performance for customers.

Performance for customers is assessed by reference to three measures, being customer satisfaction, customer delivery and customer efficiency. These measures were felt to best reflect the views of key stakeholders, including those gathered through Customer Forums, from Ofwat and from shareholders.

Customer satisfaction: CMeX and DMeX (25 per cent)

Customer satisfaction during the performance period is determined by reference to the company's performance in relation to Ofwat's two measures of customer satisfaction (CMeX for household customers and DMeX for customers — including, but not limited to — developers who require new connections).

In recognition of the fact that the number of household customers is significantly greater than the number of developer service customers, the customer satisfaction measure is weighted in favour of household customers such that:

- a maximum of 20 per cent depends upon CMeX performance during the performance period; and
- a maximum of 5 per cent depends upon DMeX performance during the performance period.

Customer delivery: A small number of ODIs representing the most important customer priorities as determined by our customers (40 per cent)

The table below details the ODIs that are measured:

ODI	Measure
Leakage (3-year average)	MI/d, 3-year average
Interruptions to supply	Average minutes lost per customer
Internal flooding	No. incidents per 10,000 sewer connections
External flooding	No. incidents
Pollutions	No. water recycling category 1–3 pollution incidents per 10,000 km of sewer
Mains repairs	No. repairs per 1,000 km of water main
Water quality compliance	Compliance Risk Index
Treatment works compliance	% of WRCs and WTWs failing numeric discharge permit conditions

Customer efficiency: A measure of financial efficiency shared with customers (35 per cent)

This measure relates to the 'totex gap', which means the gap between the amount of totex spent during the performance period and the amount allowed by Ofwat in the FD in respect of the performance period. Outcomes for this measure are based on the overall reduction of this gap, which will benefit customers in future years.

These measures are directly linked to the 2020–2025 outcomes following our Business Plan submission and the Final Determination.

In recognition of the extreme pressure on costs during 2020/21, the performance condition included an additional target linked to a base opex threshold which needed to be satisfied before any payment could be made. If the company achieved the base opex target but did not meet the stretch target, the overall payment could be reduced. Payments could still be made in future years if the remaining performance targets were satisfied.

In addition to the three customer-focussed performance measures, payments to Executive Directors were also dependent upon the achievement of personal objectives focussing on their broader roles across the Group.

The Committee has discretion to amend company and personal objectives during the year. 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 relation to the deferred elements of the Award (payable in 2023 and 2024), the Committee is also entitled to reduce payments in circumstances where there have been material issues in respect of service, quality, health and safety, reputation, and financial or regulatory performance. The Committee may also claw back bonus already paid where, in its judgement, there has been serious misconduct.

Outcomes for 2020/21**Customer satisfaction (25 per cent)**

2020/21 was a challenging year for several reasons. We saw a positive spike in the customer measure of experience (CMeX) at the start of the year due to our support for customers during the early days of the pandemic, but then experienced a very challenging summer due to increased demand related to Covid-19 and hot weather, followed by a wet winter. In that context we are pleased to be ending the year less than one point from a top three position across the industry. Equally, our customer service under the DMeX measure was heavily influenced by the effect of the pandemic on development activity. We ended the year in fifth position with a good action plan to target improvements.

2021 Directors' Remuneration Report continued

Customer delivery scorecard (40 per cent)

Performance in relation to performance commitments (or ODI) outcomes is measured through an overall ODI scorecard. Within the scorecard, each outcome has a maximum number of points associated with it, which reflects a balance between the importance that our customers place on the relevant outcome and the value of the associated financial reward or penalty.

On leakage, our performance remains sector leading. We ended the year having achieved slightly above the base target, an exceptional performance in the context of an extremely challenging year and exceptional weather events.

We continue to perform strongly on interruptions to supply. However, our performance on external sewer flooding and pollution incidents has also been impacted by the exceptional rainfall over the winter period. While these events are not considered to be

reflective of underlying business performance, this has resulted in these targets being missed. We have seen a very strong performance on total mains repairs over the year, achieving stretch, and achieved good performance for water quality, internal flooding and treatment works compliance, achieving above the base target position.

Customer efficiency (35 per cent)

Delivery of opex and capex targets in the year was particularly strong, with significant opex initiatives delivered to enable the business to deliver on the basis of Ofwat's Final Determination in the year. Despite the challenges of Covid, the capex programme has tracked close to target throughout the year.

Table 9 shows the scoring mechanism and the customer delivery ODI outcomes for 2020/21, detailing the company performance for each ODI measure.

Table 9

	Threshold	Base	Stretch	Outcome
Leakage (megalitres per day)		183 ●	●	182.5
Interruptions to supply (minutes)	-	6.30 ●	●	5.02
Internal flooding (no. incidents per 10,000 sewer connections)	-	1.35 ●	●	1.33
External flooding (no. incidents)	-	2,333 ●	●	3,628
Pollutions (no. water recycling category 1–3 pollution incidents per 10,000 km)		26.1 ●	●	27.7
Mains repair (no. repairs per 1,000 km of water main)		140.1 ●	●	129.2
Water quality compliance (Compliance Risk Index)		2 ●	●	1.99
Treatment works compliance (% of WRCs and WTWs failing numeric discharge permit conditions)		98.7 ●	●	99.3

Outcomes for Executive Directors (audited)

The Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 73.63 per cent for the Executive Directors.

As a result of this performance, and the Committee's review of the assessment of performance against the personal objectives of each individual Executive Director, deferred bonus payments for 2020/21 were between 79.2 and 84.2 per cent of maximum.

Table 10 details the relationship between each of these performance measures and how it relates to the bonuses achieved by each Executive Director in the 2020/21 performance year.

Table 10

Peter Simpson	Weighting for 2020/21 (as % of base pay)	Threshold	Base	Stretch	Outcome
Customer satisfaction	20.3%	●	●	●	10.1%
CMeX performance	16.2%	●	●	●	8.1%
DMeX performance	4.1%	●	●	●	2.0%
Customer delivery	32.4%	●	●	●	21.2%
Customer efficiency	28.4%	●	●	●	28.4%
Personal objectives	54.0%	●	●	●	47.3%
Total % award payable	135.0%				106.9%
Maximum award payable					£682,124
Deferred bonus paid					£540,092

Steve Buck	Weighting for 2020/21 (as % of base pay)	Threshold	Base	Stretch	Outcome
Customer satisfaction	16.5%	●	●	●	8.3%
CMeX performance	13.2%	●	●	●	6.6%
DMeX performance	3.3%	●	●	●	1.7%
Customer delivery	26.4%	●	●	●	17.2%
Customer efficiency	23.1%	●	●	●	23.1%
Personal objectives	44%	●	●	●	44.0%
Total % award payable	110%				92.6%
Maximum award payable					£434,500
Deferred bonus paid					£365,753

2021 Directors' Remuneration Report continued

LTIP

Following the implementation of the Deferred Bonus Scheme in 2019/20, awards are no longer made under the LTIP. The AWG LTIP was designed to incentivise senior executives to deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees were granted a conditional award entitling them to a cash payment subject to the achievement of performance conditions over a three-year performance period. In order to align the interests of executives with those of shareholders, the final payment is uplifted by the average rate of return to investors over the performance period.

Outcomes in 2020/21

The 2018 LTIP award vested in May 2021. Table 11 shows the performance measures and weightings for the awards made in 2018. The full performance period ran from 1 April 2018 to 31 March 2021.

The design of the 2018 scheme introduced two performance conditions which were associated with the value of the business (calculated by reference to the return to the ultimate owners of the business). These conditions related to the periods: 2018–2020 (44 per cent of the total) and 2020–2021 (33 per cent of the total), plus a totex savings target which accounted for the final 23 per cent.

In making recommendations to the Board as to the extent to which these performance conditions had been achieved, the Committee concluded that the company had outperformed on the totex efficiency measure, but had missed the targeted rate of return for the first performance period. The company met the stretch target for the second performance period.

The conditions attached to the 2018 LTIP award allowed the Committee to withhold up to 30 per cent of the LTIP award in circumstances where there was a material failure to meet certain key operational performance targets. One of these performance conditions required the company to maintain 3-star status in respect of the Environment Agency's Environmental Performance Assessment. The company's performance in 2019 was assessed by the Environment Agency as being only 2-star. As the company achieved 3 stars in 2018 and anticipates 3 stars for 2020, it was determined by the Committee that a significant deduction of 10 per cent should be applied. Therefore, as the Committee had recommended that the extent to which the performance conditions that had been achieved over the three-year period was 56 per cent, with the 10 per cent reduction applied, the final award applied was 50.4 per cent. This award value was uplifted by the average rate of return, which for the 2018 LTIP was 5.4 per cent.

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 1 (2018–2020)	66.0%	33.0%	0.0%	0.0%
	Achievement of targeted average rate of return over the performance period 2 (2020–2021)	49.5%	24.8%	49.5%	24.8%
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the Performance Period	34.5%	17.3%	34.5%	17.3%

Table 12 - Payments to Executive Directors during 2020/21 and the maximum value of unvested long-term incentives (audited) - awards prior to 2020/21

	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2020 £	Value of awards vesting on 31 March 2021 £
Peter Simpson	2018 LTIP	1 April 2018 to 31 March 2021		735,840	390,890
Scott Longhurst ¹	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return – 33%	490,560	260,593
Chris Newsome ¹	2018 LTIP	1 April 2018 to 31 March 2021	Totex outperformance – 23%	65,450	34,768
Jean Spencer ¹	2018 LTIP	1 April 2018 to 31 March 2021		61,796	32,827

1 Scott Longhurst will receive two thirds, and Jean Spencer and Chris Newsome will receive one third of the 2018 LTIP as per the scheme rules and their leaving arrangements, and all figures are adjusted for this in this table.

2 The cost of Scott Longhurst's LTIP awards are paid by other parts of AWG and are not charged to the company.

Table 13 - Payments to Executive Directors during 2020/21 and the value of Deferred Bonus awards (audited) - from 2020/21

Table 13 shows the value of payments made pursuant to the 2020 Deferred Bonus Plan made in the performance year and subsequent conditional deferred payments that are due in Year 3 (2023) and Year 4 (2024). The breakdown of the 2020 payment can be found in Table 10. All future payments depend on conditional requirements being met. The value of the deferred payments will be uplifted by CPHI. The secondary performance conditions applicable to the deferred payments are:

- our assets must be maintained in good condition against a series of specific measures;
- good water quality must be maintained as measured by DWI statistics;
- the company must maintain good environmental performance;
- there must be no material damage to the reputation of the company; and
- there must be no significant deterioration in health and safety performance.

The Committee will review these measures at the end of Year 3 and again at the end of Year 4 and has discretion to reduce the amounts payable based on set criteria.

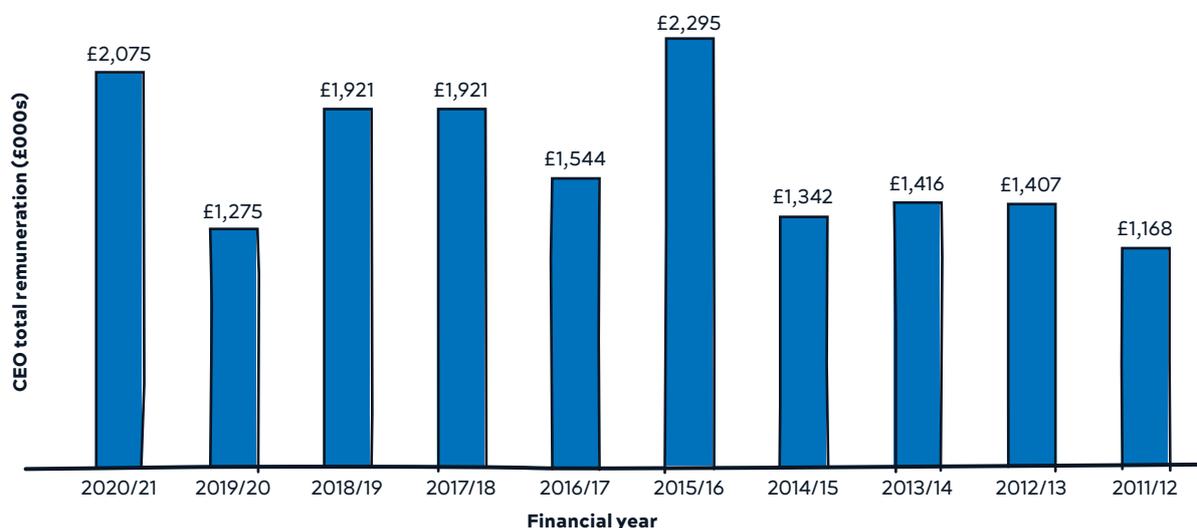
Table 13

	DBS award	Performance period	Performance measure and achievement	Base value of conditional payments held at 31 March 2021 £	Value of awards vesting on 31 March 2021 £
Peter Simpson	2020	1 April 2020— 31 March 2024	Personal objectives and leadership behaviours 47.3% Financial and operational targets – 59.7%	682,124	540,092
Steve Buck	2020	1 April 2020— 31 March 2024	Personal objectives and leadership behaviours – 44% Financial and operational targets – 48.6%	434,500	365,753

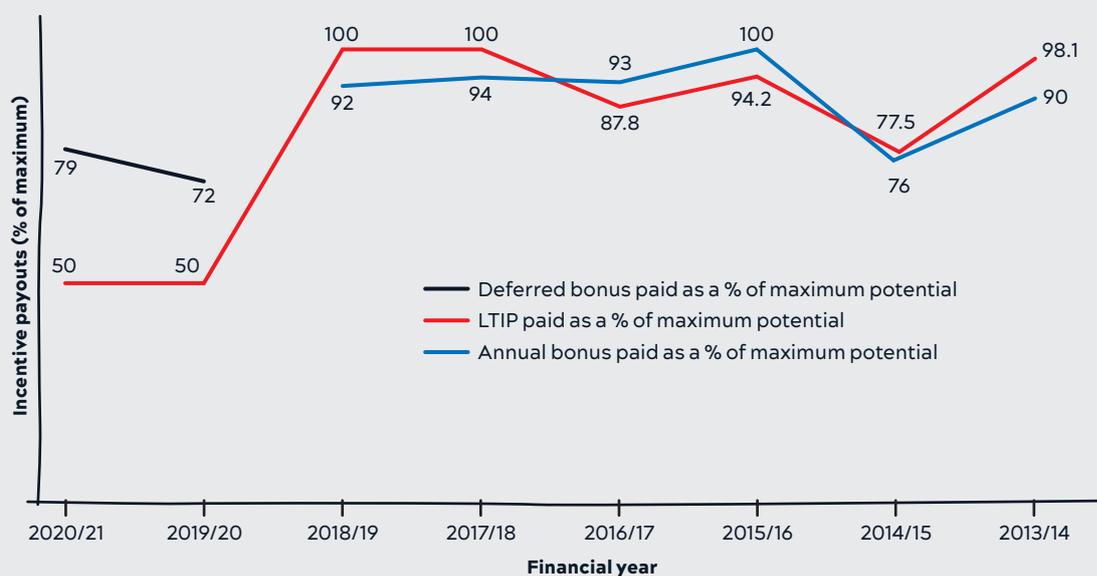
Note: Performance measures and achievements reflect the percentage award relevant for the payment achieved in 2020/21, excluding future payments subject to secondary performance conditions.

2021 Directors' Remuneration Report continued

Graph 2 - Change in CEO remuneration



Graph 3 - Change in percentage of award of CEO performance-related pay



Note: The Annual Bonus and LTIP were replaced by the Deferred Bonus Scheme at the start of 2019. 2020/21 LTIP payments are based on the 2018 LTIP award which was the final award under this plan.

AWG Co-investment Plan

The Co-investment Plan (the Plan) was established in March 2020 and was designed to operate annually throughout AMP7 (2020–2025). 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 AMP period. Funds are locked in for the whole AMP unless the Remuneration Committee exercises its discretion to waive this condition (which will only occur in exceptional circumstances).

Sums invested are treated as a loan in respect of which interest is payable, calculated annually and applied to the principal sum invested. The rate of interest is aligned to the total shareholder returns and may increase or decrease over the investment period.

Table 14 shows the sum invested for Executive Directors during 2020/21 in the AMP7 Co-investment Plan.

Table 14

Executive Director	Amount invested 2020/21
Peter Simpson	£297,000

Table 15 shows the amount invested and total return of the AMP6 Co-investment Plan, which closed at the end of June 2020. This table includes all Executive Directors who invested into the plan.

Table 15

Executive Director	Amount invested over AMP6 2015–2020	Total return based on interest payable
Peter Simpson	£1,000,000	£238,676
Scott Longhurst	£1,000,000	£249,054
Chris Newsome	£300,000	£58,160
Jean Spencer	£280,000	£41,184

Jean Spencer and Chris Newsome stepped down from the Board on 11 August 2018. The Committee agreed that sums invested by Jean Spencer and Chris Newsome could remain invested until June 2020.

Table 16 – Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration all AWG £			
	2020/21			2019/20
	Fees	Benefits ¹	Total	Total
John Hirst²	300,000		300,000	72,100
Stephen Billingham	150,000	232	150,232	300,407
Polly Courtice	71,500		71,500	51,500
Paul Whittaker	61,800		61,800	61,800
Zarin Patel	61,500		61,500	51,500
Natalie Ceeney	51,500		51,500	51,671
Total Non-Executive Directors	696,300	232	696,532	588,978

1 Benefits are cost of home to office travel and associated tax paid by the company for Non-Executive Directors carrying out duties at the company's head office in Huntingdon.

2 60 per cent of John Hirst's costs are met by Anglian Water Services Limited with the remainder paid by Anglian Water Group.

Stephen Billingham retired on 31 March 2020. The fees received were as part of his payment in lieu of notice.

Fees

Fees for Polly Courtice and Zarin Patel were increased in line with a market review of their current roles as Non-Executive Directors.

2021 Directors' Remuneration Report continued

Implementation of remuneration policy in 2021/22

2021/22 base pay

The Committee reviewed current base pay arrangements and agreed Steve Buck's base salary would increase by 2 per cent in line with the increase for the rest of the workforce. It was agreed that there would be no change to Peter Simpson's base salary at this stage until a broader review of his remuneration is expected to conclude later in the coming year.

It was also agreed the fees for Independent Non-Executives would increase by 2 per cent in line with the increase to the wider workforce.

2021/22 Deferred Bonus Plan Award

Following the appeal to the Competition and Markets Authority (CMA) and following the unprecedented year in 2020/21, a review was undertaken of all the performance conditions attached to awards under the Deferred Bonus Plan. The Committee set stretching targets to ensure Executives are incentivised to deliver across a wide suite of customer-focussed measures. The balance across these measures was felt to best reflect the views of key stakeholders, including those gathered through Customer Forums, and from our regulator and shareholders.

The performance conditions that apply for the 2021 award should be as set out below:

Customer delivery (65%)

The performance commitments that contribute to this measure are listed below and will be consolidated into a basket of measures. Each of the performance commitments has an associated penalty and/or reward which have been set by the regulator and refined by the CMA in its Redetermination. Therefore the amount of reward (if any) will be to the extent to which the amount of this element of the award will vest.

Measure

Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.
Developer Measure of Experience (DMeX)	Survey conducted for Ofwat called DMeX which assesses the experience the company provides to developer services customers who build new homes.
Properties at risk of persistent low pressure	Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water main burst or unusual peak in demand for water.
Internal sewer flooding	The number of times that properties that are flooded internally per 10,000 customer connections to the sewer.
External sewer flooding	The number of times that properties are flooded externally.
Water supply interruptions	Average length of supply interruptions per property (for interruptions over 3 hours).
Managing void properties	The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the company.
Water quality (Compliance Risk Index)	This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.
Water quality contacts	The number of complaints from customers about water quality per thousand people served.
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to increase the number of properties supplied by more than one water treatment works so that if something goes wrong at one works, our customers' water supplies are protected.

Measure

Cyber security	Percentage of risks mitigated against the cyber threat to operational technology (OT) and to comply with the network and information systems (NIS) regulations.
Leakage	A percentage reduction in the amount of water lost to leakage across the region in MI/d. MI/d is megalitres per day and 1 MI/d is 1 million litres.
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region.
Smart metering delivery	The number of smart water meters that are installed at customer properties.
Internal interconnector delivery	The number of megalitres per day extra capacity delivered to ensure that customers in the region have sufficient water in the future.
Elsham DPC (Underperformance)	Measures the progress in implementing a direct procurement for customers process to support the appointment of a competitively appointed provider to construct and finance the Elsham treatment works and transfer scheme.
Elsham DPC (Outperformance)	
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.
Bathing waters attaining excellent status	Number of recognised bathing waters in our region rated 'Excellent' (based on standards set by the European Bathing Water Directive).
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.
WINEP	The progress of the company in delivery of its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner.
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding.
Mains repairs	Number of repairs made to water mains per 1,000 kilometres of total water mains.
Unplanned outage	Percentage of maximum water treatment works output unavailable during the year.
Sewer collapses	Number of sewer collapses per 1,000 kilometres of sewers.
Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.

Customer efficiency: A measure of financial efficiency shared with customers (35 per cent)

This measure relates to the 'totex gap', which means the gap between the amount of totex spent during the performance period and the amount allowed by Ofwat in respect of the performance period. Outcomes for this measure will be based on the overall reduction of this gap, which will benefit customers in future years.

The Committee also reflected and adjusted the balance between the customer measures as detailed above and personal objectives for the Executive Directors. 30 per cent of their maximum bonus potential is based on a set of personal objectives set by the Committee, including responsibilities across the wider Group, and 70 per cent on the basket of customer measures.

At the end of the performance year, achievement will be calculated and the appropriate payment relating to the first tranche (50 per cent) will be paid out. The remaining half will be deferred and paid out in two equal 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 secondary performance conditions set out below:

- Our assets must be maintained in good condition;
- Good water quality must be maintained;
- The company must maintain good environmental performance;
- There must be no material damage to the reputation of the company; and
- There must be no significant deterioration in health and safety performance.

2021 Directors' Remuneration Report continued

Illustration of the deferred bonus potential for the Executive Directors

Table 17

	Base salary as at 1 April 2021 £	Deferred bonus potential 2021/22 (% of base salary)
Peter Simpson	£505,277	270%
Steve Buck	£402,900	220%

Note: For the 2021/22 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, 25 per cent will be deferred for a further two-year period and 25 per cent will be deferred for a further three-year period.

Illustrations of application of the remuneration policy

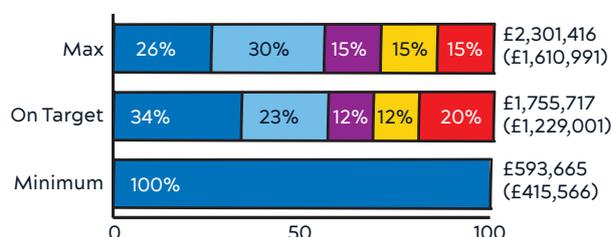
The charts in Table 18 show the weighting as a percentage of base pay for the total potential remuneration which could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2021/22.

In these charts:

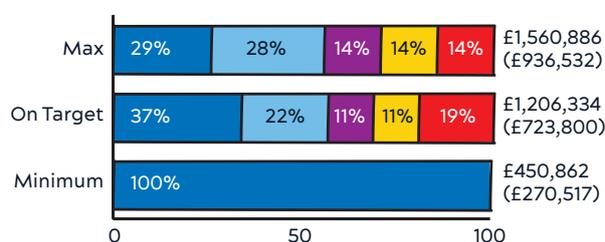
- Fixed remuneration is the minimum payable, and is made up of base pay for 2020/21 plus the value of cash in lieu of pension and benefits.
- The deferred bonus is split into Year 1 (2022), Year 3 (2024) and Year 4 (2025) payments
- The 'on target' bar in the charts, shows the percentage of fixed remuneration 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, however this has been calculated without any allowance for CPIH. The maximum award may therefore be higher as it will be adjusted by CPIH over the period. The maximum bars in all the charts include the Deferred Bonus award granted in 2020/21 which are due to vest in subsequent years.
- As per the scheme rules, the second tranche payment for the 2019 Deferred Bonus award is due to vest in 2021/22. The payment reflected in these charts will change in line with the CPIH vesting outcome, which is not known at this time.

Table 18

Peter Simpson



Steve Buck



- Fixed
- 2021 Deferred Bonus Potential –Year 1
- 2021 Deferred Bonus Potential –Year 3
- 2021 Deferred Bonus Potential –Year 4
- 2019 Deferred Bonus Payment –Year 3

Note: The figures in brackets show the amount of total remuneration costs that will be paid in 2021/22 by Anglian Water Services (AWS), with the rest paid for by other parts of the AWG Group. Peter Simpson will have 70 per cent of his costs and Steve Buck 60 per cent of his costs paid for by AWS.

AWG Co-investment Plan – 2020

A new Co-investment Plan (the Plan) was approved by the Remuneration Committee in May 2020 and is designed to operate annually throughout AMP7. As outlined earlier in the report, Senior Executives are able to make one annual investment out of net Deferred Bonus vested in the applicable year, to a maximum of £1 million over the period. Funds are locked in for the whole AMP with Remuneration 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 applied to the principal sum invested. The rate of interest is aligned to the total shareholder returns and may increase or decrease over the investment period.

Conditions in the wider Group

Percentage change in CEO remuneration compared with other employees

Table 18 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2019/20 to 2020/21 and follows the relevant guidelines. 'Other employees' are the employees of both the company and AWG Group Limited who have been employed for the full 2020/21 year. This group includes members of the company's Management Board.

Table 19

	% change in CEO remuneration, 2020/21 vs 2019/20	% change in remuneration for other employees, 2020/21 vs 2019/20
Base pay ¹	0.00%	1.55%
Taxable benefits ²	-17.15%	-22.90%
Deferred/Other bonus ³	122.14%	21.99%

- 1 There was no company-wide increase in base pay for the CEO or other employees in 2020/21. For the wider workforce, the increase is mainly down to the transfer of a number of contractors who are now permanent employees following the new IR35 legislation.
- 2 The decreases in taxable benefits for the CEO is owing to the difference in fuel allowance paid in 2020/21 in comparison to 2019/20.

The decrease in taxable benefits for 'other' employees is owing to a review of employee recognition resulting in a lower volume made through the company recognition system. In addition, as a result of Covid-19, although the healthcare benefit remained, the actual appointments available were scaled back due to focus on NHS services reducing the overall cost of this benefit at all levels of the company.

- 3 For the CEO, the increase can be explained following the decision by the Remuneration Committee to pay a one-off bonus given the unprecedented year that the company had faced as detailed in Table 7. A higher level of bonuses were also paid to a number of employees to reflect their exceptional performance throughout a very difficult year with the impact of the Covid-19 pandemic and other key initiatives. For the CEO, this was also following his decision in 2019/20 to waive his entitlement to 50 per cent of his LTIP, where a contribution of £212,000 was made to the Covid-19 Employee Assistance Fund on his behalf.

Table 20 shows the CEO's total remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent remuneration of AWG employees.

There is an increase when comparing the remuneration of the CEO and wider workforce in 2020/21 in comparison to 2019/20, owing predominantly to the decision made by the Committee and the CEO for the CEO to waive 50% of the 2017 LTIP payment. The ratio is now in line with the expected ratio and is comparable to the 2018/19 ratio.

Table 20

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	66 to 1	50 to 1	40 to 1
2019/20	41 to 1	31 to 1	25 to 1
2020/21	65 to 1	50 to 1	40 to 1

Note: All figures included in the ratio calculations were based effective from 31 March of each year. The methodology used was Option A under the Corporate Governance Code 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 figures, 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 and bonus 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 schemes.

Table 21

Table 21 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.

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	£505,277	£30,966	£34,796	£45,107
Total pay and benefits	£2,074,647	£32,091	£41,317	£51,975

Note: Salary includes base salary, basic hours (for hourly paid individuals) and holiday pay.

2021 Directors' Remuneration Report continued

Table 22

Table 22 below sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2020 and 31 March 2021.

	AWS		
	2020/21 £m	2019/20 £m	% change
Remuneration paid to employees ¹	212.4	207.0	2.6
Dividend paid outside the AWS financing group net of equity injection ²	nil	67.8	(100.0)
Capital investment ³ (cash)	424.1	452.5	(6.3)

1 Remuneration paid to employees has increased by 2.6 per cent which reflects both an increase in the overall headcount and the impact of a number of salary increases to reflect development within role and transfer of contractors to permanent roles.

2 It is noted that Anglian Water Group did not pay any dividends to shareholders in this financial year (2020: £nil).

3 Capital investment is lower in 2020/21 but reflects a strong start to our AMP7 investment programme during which time we will invest a record £3.0 billion through our capital investment programme.

Remuneration Committee decisions

Consideration by the Directors of matters relating to Directors' remuneration

Remuneration matters relating to the 2021 financial year were discussed at Remuneration Committee meetings held on 22 April 2020, 7 May 2020, 29 May 2020, 23 November 2020 and 23 March 2021. The items discussed at these meetings are summarised below:

22 April 2020

- Consideration of the approach to bonus and LTIP payments in respect of the 2019/20 financial year.
- Consideration of the approach to remuneration arrangements in respect of the 2020/21 financial year.

7 May 2020

- Approval of true-up payment in respect of the 2018/19 performance contract.
- Discussion regarding the outturn of the 2019 Deferred Bonus Scheme.
- Discussion regarding the proposed structure and participants of the 2020 Deferred Bonus Scheme.

29 May 2020

- Approval of the Remuneration Report 2020.
- Performance review and pay and bonus recommendation for Executive Directors and senior management.
- Approval of the 2020 awards under the Deferred Bonus Plan.
- Approval of Co-investment Plan opportunity for 2020.
- Approval of vesting of 2017 LTIP award.
- Approval of the outturn in respect of the 2019 Deferred Bonus Plan award.
- Approval of the Executive Directors' objectives in respect of 2020/21.

23 November 2020

- Performance contract update.
- Discussion regarding the AWG Loyalty Savings Scheme.
- Discussion regarding the 2018 LTIP.
- Review of Executive Director performance.
- Review of Executive Director benchmarking.

23 March 2021

- Consideration of the draft outturn for the award under the 2020 Deferred Bonus Scheme.
- Overview of the Remuneration Report 2021.
- Discussion regarding 2020 Co-investment Plan.
- Discussion regarding Deferred Bonus Plan targets and participants.
- Evaluation of the Remuneration Committee.
- Approval of the structure of the Deferred Bonus Scheme Awards for the 2021/22 financial year.
- Discussion around the performance of the 2018 LTIP award and Loyalty Savings Scheme.
- Discussion regarding Executive Directors' objectives in respect of the 2021/22 financial year.
- Consideration of the impact of the annual pay award on senior managers' pay and Non-Executive Directors' fees.

The Committee's terms of reference are available on the AWS website.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 122. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 23 March 2021. No material shortcomings in the operation of the Committee were highlighted.

External advisors

During 2020/21 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.

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Committee.

The report was approved by the Board on 16 June 2021 and signed on its behalf.

Paul Whittaker

Chairman of the Remuneration Committee
16 June 2021

Directors' Report for the year ended 31 March 2021

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2021.

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, First Sentier Investors, Infinity Investments S.A., IFM Investors and Camulodunum Investments Ltd. The Company's ownership structure is detailed on pages 26–27.

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 8–97.

Corporate governance statement

During the year the company has applied the Anglian Water Services Corporate Governance Code 2020 (2020 Code). Information on the requirements of the 2020 Code and how it was applied during the year can be found in the Corporate Governance Report on pages 104–113.

Details of the corporate governance arrangements resulting from the securitisation of the company in 2002 can be found on page 105 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 20 of the financial statements.

Principal activities

The company provides around 1.1 billion litres of drinking water to 4.8 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 6.4 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 148 shows the Group's results and profit for the year. Details on dividends can be found in note 11 of the financial statements. No dividends were paid to the ultimate shareholders in the year.

Risk management

Detailed information about the company's risk management processes, including its approach to financial risks, can be found on pages 76–93.

Health and safety

Details are included on page 55 and pages 82–83.

Directors

Current Directors of the company are listed on pages 100–103 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 108.

Directors' indemnities

During the 2020/21 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.

Political donations and expenditure

No political donations or expenditure were made during the year (2020: £nil).

Emissions

Information relating to carbon emissions can be found on pages 74–75.

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.

Employees

Information on the company's policy on employing people with disabilities and about how employees are kept informed and consulted can be found in 'Our people & partners' on pages 54–57. Information relating to how the Directors have engaged with employees and the effect of that regard can be found in the section 172 statement on pages 62–65.

Each year since 2007, the company has offered employees the opportunity to participate in the AWG Loyalty Savings Scheme. This scheme enables employees to save on a monthly basis and then potentially benefit from the financial performance of Anglian Water at the end of the three-year savings period.

Stakeholder engagement

Details of how the Directors have engaged with customers, suppliers and other stakeholders, including those representing communities and the environment, can be found in the section 172 statement on pages 62–65.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 31 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 2021 financial statements. Further details of this review can be found on page 157.

Directors' disclosures to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- a) so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- b) the Director 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.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

The auditor, Deloitte, has indicated its willingness to stay in office and is deemed to be reappointed.

By order of the Board

Claire Russell

Company Secretary
16 June 2021

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 financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with IFRSs as issued by the IASB. 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 International Accounting Standard 1 requires that the Directors:

- 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;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- 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 corporate and financial information included on 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 Board of Directors sections on pages 100–103 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; and
- 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.

See pages
148–219

See pages 144–145
and 8–97

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
16 June 2021



“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.”