RESPONSIBLE BUSINESS

ANGLIAN WATER SERVICES LIMITED
ANNUAL INTEGRATED REPORT 2018

EXTERNAL RECOGNITION

Winner

Business in the Community Responsible Business of the Year

ROSPA Gold – Anglian Water and @One Alliance

Queen's Award for Enterprise: Sustainable Development

Glassdoor Highest Rated CEOs Employees' Choice 2017

Glassdoor Best Places to Work Employees' Choice 2018

Leading Utilities of the World

Green Finance Award

British Construction Industry Award

Utility Week Awards

A RESPONSIBLE BUSINESS

A RESPONSIBLE BUSINESS DELIVERING FOR CUSTOMERS, COMMUNITIES AND THE ENVIRONMENT

Anglian Water is the largest water and wastewater company in England and Wales by geographic area. We employ 5,000 people and supply water and water recycling services to more than six million customers in the east of England and Hartlepool.

Our Company has been delivering for customers and for the environment for the last 30 years.

UK'S HIGHEST ACCOLADES

Anglian Water was named Business in the Community's Responsible Business of the Year for 2017 – one of the UK's highest accolades for business.

It is given to companies that put social and environmental concerns at the heart of their strategy, demonstrate a commitment to sustainability and embed it in the culture of their entire business and supply chain.

SINCE 1989 WE HAVE:

DELIVERED GREAT VALUE FOR CUSTOMERS

Our bills have increased just

20P

for every £1 other companies have added to their charges

They've fallen around 10 per cent in the last five years, twice the industry average

Efficiency savings have been shared with customers through lower bills

CUT LEAKAGE BY A THIRD

We're industry-leading on leakage and are investing

£124M

between 2015 and 2020, driving it lower

Our leakage is half the national average by water lost per kilometre of pipe

We have a 300-strong team focused purely on leakage

CUT OUR CARBON EMISSIONS

Capital carbon is down

57%

on 2010 levels, and operational carbon down by 19.6 per cent on 2014/15 levels

The costs of building and maintaining our infrastructure have fallen and we have been able to pass even more savings back to customers

IT IS OUR PRIORITY TO CREATE LONG-TERM VALUE...

...for our customers, the regional economy and the communities we serve while running the business in a sustainable and responsible way.

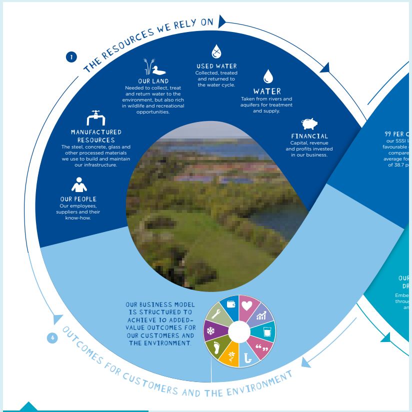
We anticipate the unique **CHALLENGES** we face and use our expertise to sustain value.

See page 18

Our unique challenges help to inform our long-term **STRATEGY**...

See page 20

...which is realised through our **BUSINESS MODEL**...



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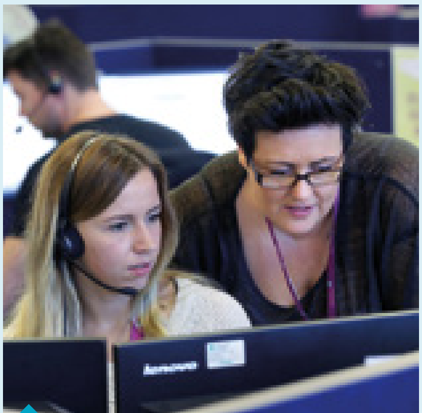
...all while ensuring we address what matters most to our **CUSTOMERS** and **STAKEHOLDERS**.



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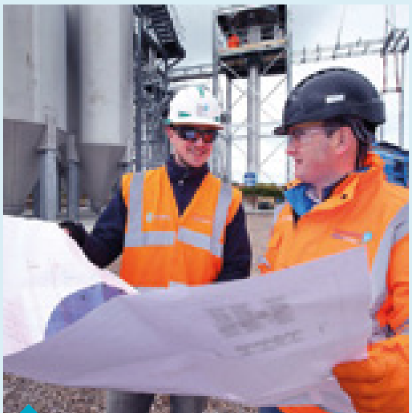
We measure our performance against our **10 OUTCOMES...**

See pages 30-69

...and ensure we take into account the **KEY RISKS** to business performance.



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1

OUR RAW MATERIAL IS THE WATER WE COLLECT FROM RIVERS AND UNDERGROUND AQUIFERS AND STORE IN OUR RESERVOIRS.

2

WE TREAT THE WATER AND PUT IT INTO SUPPLY.

3

THE WATER THEN COMES BACK TO US THROUGH OUR SEWERAGE NETWORK BEFORE WE TREAT AND RETURN IT TO THE ENVIRONMENT.

This is a critical moment for the water industry. We face increasing political, regulatory and reputational challenges, alongside those posed by climate change, growth and the need for increased environmental protections.

At Anglian Water we are doing much to meet these challenges, to achieve the outcomes agreed with customers and to continue delivering first class, affordable services.

This is underpinned by our responsible, sustainable approach to business and by our people, who make this an exceptional business.

Their efforts are reflected in the large number of awards Anglian Water has won this year, including Business in the Community's Responsible Business of the Year for 2017.

Other awards highlight our achievements and the excellent work of individuals and teams across the business.

Our Chief Executive, Peter Simpson, was named Best CEO by users of the job and recruitment website Glassdoor – an award made more impressive by being based on the anonymous ratings of colleagues.

Anglian Water was named the best UK-based company in Glassdoor's list of Best Places to Work 2018. We actually came second worldwide, with only Google rated more highly by its employees. For a regional UK water company to perform so well in such a forum is clear evidence that there is something special about Anglian Water and its people.

Our Treasury team won the Green Finance award from the Association of Corporate Treasurers with the first sterling Green Bond to be issued by a European utility company.

Our unique, long-term alliancing approach to capital delivery was recognised when we and our @one Alliance won the Supply Chain Excellence category at the Utility Week Awards. The benefits of that collaborative approach were also recognised by the judges when they gave us the Capital Project Management Award for our Grafham resilience scheme. This addresses long-term resilience challenges such as climate change and population growth and was delivered with our alliance partners Mott MacDonald and JN Bentley. Collaboration and the use of innovative design and effective test principles created huge savings in cost and carbon in what the judges called a "fantastic exemplar for the industry".

Grafham also won Carbon Reduction Project of the Year at the British Construction Industry Awards. This was collected on our behalf by Karl Porter, Network Service Support Manager, and Kirsty Jones, Infrastructure Modeller. Both were instrumental in the project's success and exemplify the attitude that lies behind all these awards – a willingness to challenge accepted wisdom and to pursue innovative solutions in the service of customers, communities and the wider region.

It was focus on innovation and on resilient finances, along with the continuing industry-leading success of our Leakage teams, that saw us named as one of the Leading Utilities of the World at the Global Water Summit in Paris. Anglian Water is the only water company in England and Wales that has been invited to join this select group.

I want to extend my thanks and that of the Board to these individuals and teams and to all the people who work so hard for us and our alliance partners and contribute so much to our success.

It is they who showcase what a responsible, sustainable and efficient water company we have, and who will help to deliver against our outcomes and our long-term ambitions. In this report you will see the quality of the results everyone has delivered for our customers and shareholders.

Stephen Billingham, Chairman

CHIEF EXECUTIVE'S STATEMENT

As I write, Anglian Water is coming to the end of its 12 months as Responsible Business of the Year. The title was awarded to us last July by Business in the Community and is one of the highest accolades available to UK companies.

It was given in recognition of our Love Every Drop strategy, which has social and environmental concerns at its heart and has helped us to embed a commitment to sustainability throughout our business and its supply chain. It was that same commitment which earned us the Queen's Award for Enterprise for sustainable development in 2015.

Since becoming Responsible Business of the Year, we have been working hard to show others how sustainability makes good business sense. We want to show how businesses in the UK can be trusted by customers and communities, to work with a purpose and create a positive legacy in the most challenged communities.

The case studies on pages 10 to 15 of this report showcase three of our key collaborative programmes: our Innovation Shop Window initiative, community regeneration in Wisbech and Water Resources East. For each, we have published a guide to help others create new and successful collaborations in places that are important to their businesses.

This year we were named as the best UK-based company to work for – and second best in the world – by users of recruitment website Glassdoor. We also came top in the qualitative survey for Ofwat's Service Incentive Mechanism, which is based on ratings from customers who contacted us throughout the year. For both employees and customers to rate Anglian Water so highly is very pleasing – and I think significant. Just like the title of Responsible Business of the Year, they are the result of our Love Every Drop strategy and its responsible, efficient and sustainable approach to business.

It is a unique approach, developed in response to the challenge we face: a combination of climate change, growth and the need to protect a natural environment that's under strain.

We have already delivered industry-leading performance on bills, leakage, carbon reduction and demand management. In the process, we have led on a range of nationally important issues, including pioneering a collaborative, multi-sector approach to resilience against flood and drought through the National Resilience Taskforce, the national Water Resources Long-Term Planning Framework and Water Resources East. We have also pioneered alliancing in the industry, demonstrating how such long-term collaborative partnerships can drive a transformative combination of efficiency improvements, innovation and significant carbon reduction.

The benefits of our approach were brought into sharp focus in March, when we successfully protected customers and services from the impacts of the major freeze and rapid thaw. The effects – substantial ground movements and resultant mains bursts – were a more significant issue in our region (particularly in the Fens) than elsewhere. In the days following the thaw, we saw twice the normal level of customer-reported leaks for the time of year, while demand rose to levels normally seen on a hot summer's day.

Despite this, our forward planning and our actions ensured that customer impacts were minimised. Our response drew praise from Thérèse Coffey, Parliamentary Under Secretary of State at the Department for Environment, Food and Rural Affairs (Defra). Speaking in Parliament against a backdrop of public and media concern over the number of people without water around the UK, she said: "It is important that we also recognise those companies and parts of the country that have had no interruption of supply to customers. I thank companies such as Anglian Water... I want to zone in on the companies that are failing to help their customers and, meanwhile, I want to learn from the companies that are doing their best to protect customers."

Our planning; our investment in resilience; our industry-leading position on leakage; our unique alliancing model; the quality of our customer and stakeholder communications; and a capable, motivated workforce all helped us to cope well and to recover quickly where others struggled.

These attributes can also be seen in the consistently strong performance against our Outcome Delivery Incentives, with both leakage and interruptions to supply ahead of target, despite the large increase in bursts caused by the bad weather.

Water quality remains our first priority and it was great to see the number of water quality contacts we receive from customers drop to a record low this year, hitting a very demanding target in the process.

Incidents of flooding from our sewer network are also at record lows; we have removed more than 100 properties from our low pressure register; and all our serviceability measures have remained within control limits, providing further proof that we are investing in the right places.

When it comes to raising the money for that investment – whether from customers' bills, from our investors or from the markets – it is important that we do so in a fair and transparent way.

Most of our investors are pension funds and it is important we deliver the returns that allow them to support their members' pensions, both in the UK and overseas. Those returns must be fair, to strengthen trust and confidence in the water industry. They must also be sustainable, so we can continue to provide a world-class service and deliver the outcomes agreed with our customers.

In recognition of this, the Board of Anglian Water, in conjunction with the pension fund-backed shareholders, announced a series of corporate and financial initiatives in March, to improve transparency, trust and customer confidence.

They included removing our Cayman Islands company, Anglian Water Services Overseas Holdings Ltd, from the Group to improve the transparency and clarity of our financial structures. This company had originally been created to allow the business to be securitised, but is no longer needed. Our owners have also agreed to invest an extra £65 million in resilience schemes not included in the company's original plan, by 2020. This is on top of an additional £100 million of investment announced last year. This extra investment will improve the region's ability to deal with drought and flooding and will be paid for through a reduction in dividends to shareholders. More details on these and other measures to increase clarity and show that public interest is firmly at the heart of our business can be found in this report.

There are also some examples of the fantastic projects we have been able to fund with money raised through the issuing of our sterling Green Bond. We are the first European utility to issue such a bond, which is used to fund work that's independently certified as being beneficial for the environment. Crucially, we did not have to change anything about our operation to meet the high standards required of companies wishing to issue a Green Bond and were able to raise £250 million. Once again, this underlines both the sustainable nature of our business and the fact that sustainability makes good business sense.

It also makes sense to invest in and look after the health, safety and wellbeing of our workforce. Work should have a positive impact on people's wellbeing. Happier, healthier, safer employees work better and provide a better service to customers. We launched our new three-year health, safety and wellbeing plan this year, which was developed in consultation with people from across the business, the Health and Safety Executive and Water UK. Our behaviour change programme LIFE underpins our approach by building a culture where we all take responsibility for our wellbeing and that of our colleagues.

We are continuing to plan and to invest in protecting customers and the environment. This year saw the publication of our draft Water Resources Management Plan, which sets out how we propose to balance supply and demand in a fast-growing region over the next 25 years and to protect customers from severe water restrictions in a future drought. We are also developing 25-year plans for water recycling and surface water management, as we look to facilitate and manage the sustainable growth of our region, address issues like flooding and keep our services resilient.

In March, we published our Outline Business Plan for the next Price Review in 2019 (PR19), incorporating the views of tens of thousands of customers. Our customer engagement strategy was co-created with customers to ensure we engaged with them in ways and at times that were most relevant to them. That process continues as we gather views on the Outline Plan and prepare for publication of the Final Plan in August. It is part of an ongoing conversation with customers that allows us to keep a finger on the pulse of the region and to ensure customers know their views are taken into account in all our planning.

As we approach the end of our time as Responsible Business of the Year, our industry finds itself under intense scrutiny. As well as being the best business we can be, we want to help others to innovate and grow sustainably.

We are determined to show that a well-run and well-regulated privatised water industry is best placed to meet society's long-term need for safe, reliable and affordable water and sewerage services.

That is because what we do at Anglian Water really matters. Water is the lifeblood of our region; it enables businesses to grow, communities to flourish and people to get on with their day-to-day lives. I am very grateful to the men and women who work so hard to make that happen and very proud of what we have achieved together in the last 12 months.

Peter Simpson, CEO

"Since becoming Responsible Business of the Year, we have been working hard to show others how sustainability makes good business sense."

SUPPORTING ECONOMIC REGENERATION IN OUR REGION

There is a real opportunity for businesses to recognise their role in broader society and the part they can play in supporting the communities they serve. We wanted to explore whether we could create sustained, positive impacts in an area that was facing real challenges. The beautiful, but often forgotten, market town of Wisbech was the location we chose.

By concentrating on improving a single town in a collaborative way, we believe we can make a lasting difference to local people's lives. Anglian Water wants to promote a shared approach to corporate citizenship; making the UK happier, healthier and wealthier, place by place.

The vision has grown from grassroots community work to fundamental change in the area, including a proposal for a new garden town with over 10,000 new homes. The regeneration work can be grouped into three key themes: community; education and skills; and infrastructure. Together, these will bring improved transport links, increased career prospects, improved health, and better education and skills training for local people.

Collaboration has been key. Alongside our alliance partners, we have worked closely with many people and organisations, including the local MP Stephen Barclay, Fenland District Council and government agencies. Various local and national businesses have also committed time and resources to specific aspects of the development of Wisbech.

"The people of Wisbech used to believe that nothing would ever change and if it did it would only be for the worse. When Anglian Water got involved, the first thing they did was listen. They didn't come because they had to or because they wanted to improve a government statistic; they came to help us to change the way things are. The way they are involved in Wisbech has evolved, and they have responded to what they have heard and seen in a flexible way. It is not about following a prescribed method but about an attitude of being ready to do what it takes to change things."

Keith Smith, Founder and Director of the Ferry Project

Anglian Water is immensely proud to be **Business in the Community's Responsible Business of the Year 2017**. When we received the award, we committed to sharing our learning through three guides on key collaborative programmes: our Innovation Shop Window initiative, community regeneration in Wisbech and Water Resources East. We hope that in each guide there is something that can help others to create new and successful collaborations in a place that is important to their business. They can be found at **www.anglianwater.co.uk/RBOTY2017**.

INNOVATION SHOP WINDOW

Exciting advances are taking place across our business, promising ever-greater efficiency and even better services for customers. We need a place to test ideas, technologies and processes; we need to see how they work together to become more than the sum of their parts.

Unique to our industry, the Innovation Shop Window is set in and around Newmarket in Suffolk. Started as a trial project to optimise water pressure and calm our network in the area, it has developed into a live test-bed to pilot our suppliers' best products and approaches. If successful, these can be rolled out across our business.

Now we are working with more than 100 organisations across 95 projects, and are engaging with our customers at the level easiest for them – their water use at home. We have developed The Smarter Drop engagement campaign, aiming to reduce household water consumption and to communicate with customers about our innovations and smart infrastructure. This allows us to bring the project to people in Newmarket, jointly develop ideas, and work with them in a fun and engaging way.

"At Anglian Water, we are aware that being truly successful in meeting our challenges can only come about by innovation. Our supply chain is a vital part in this. That is why the Innovation Shop Window was created; to allow new collaborations to be formed with organisations who are pushing the frontiers on not just technology and products but in every aspect of how we improve our service to our customers and our stewardship of the environment."

Jason Tucker, Director of Alliances & Integrated Supply Chain

RESPONSIBLE BUSINESS OF THE YEAR 2017
BUSINESS IN THE COMMUNITY

WATER RESOURCES EAST

We believe that a collaborative, multi-sector approach is the future of water resources planning in the UK.

Our region faces many future challenges and competing demands for water. It is the driest in the UK, is critical in terms of agricultural production and has some of the country's most important wetlands. We need to balance the demand for water across all these vital sectors.

Set up by Anglian Water in 2014, Water Resources East (WRE) aims to bring together water utilities, energy, retail, environmental groups, land management, agriculture, local and national government, community groups and domestic consumers – to name a few. The partners collaborate to address the region's challenges, building on its unique opportunities for sustainable growth and pioneering a new approach to managing water resources.

WRE considers the views and actions of all water users and those who are, or would be, affected by changes in water resources management. All users influence how water resources are managed. Rather than seeing it as a hierarchy where water needs are ranked, it is a circular system where the actions of one water user will eventually impact on others and the environment. WRE puts this thinking at the forefront of all planning and management of the region's water future.

We are now ready to move from planning and research to practical application – making these changes happen on the ground.

"WRE offers the prospect for all interested parties to work in partnership, exchange views and expertise, and collectively agree the best way forward in managing water demand and supply for all."

Paul Hammett, national water resources specialist for the National Farmers Union

RESPONSIBLE BUSINESS OF THE YEAR 2017
BUSINESS IN THE COMMUNITY

WHAT MATTERS MOST TO OUR STAKEHOLDERS

We take the interests of our key stakeholders into account in our everyday business decision making, ensuring we engage with them and respond to their needs.

FUTURE RESILIENCE

"Anglian Water has been looking at a future where increased demand, population growth and climate change have to be balanced against providing a resilient and sustainable water resource. This challenge could not be met alone, so in 2014 they established a multi-sector group of stakeholders that could collaborate and engage at a catchment and basin scale. Water Resources East (WRE) is that group, and it is now pulling together those affected by changes to water availability, quality and quantity. They hope to find solutions for those involved in agriculture, conservation, energy generation and amenities. As the independent Chairman of WRE, I am hugely encouraged by the innovative thinking of Anglian Water and our stakeholders. By thinking and planning together for the future, we stand a strong chance of success. Future generations cannot afford for us to fail."

Henry Cator, OBE, Independent Chairman of WRE Leadership Group

SUSTAINABLE, LONG-TERM RETURNS

"As a long-term investor, Canada Pension Plan Investment Board (CPPIB) seeks investments that will deliver steady, risk-adjusted returns for the benefit of the Canada Pension Plan's 20 million contributors and beneficiaries. We have been investors in Anglian Water since 2006 and are proud to support Anglian Water in its efforts to provide a world-class service to its customers through continued investment, including an extra £65 million by 2020."

James Bryce, Anglian Water Services Non-Executive Director and Managing Director, Portfolio Value Creation – Private Investments, with the CPPIB

TRAINING AND DEVELOPMENT

"I really enjoyed my work experience placement with Anglian Water. It's made me realise how much the company does to ensure we have access to clean water and the amount of work that goes into making that happen. My granddad was an engineer, so I always knew that I wanted to go into that field. After working with Anglian Water, I've decided I want to have a career in civil engineering."

Nick Lincoln, student, Greater Peterborough University Technical College

SUPPORTING BIODIVERSITY

"A commitment to protecting and restoring our wealth of wetland habitats is just one reason we are delighted to work with Anglian Water. Together, we know that we can make a difference to rare and common species, be they in wet grasslands, open water, fens or mires. Anglian Water, through its Flourishing Environment Fund, helps environmental organisations deliver real benefits for nature, helping towards a better water quality for us all."

John Milton, Head of Nature Reserves, Norfolk Wildlife Trust

AFFORDABILITY

"The Customer Board at Anglian Water is extremely aware of the importance of affordability at a time when household budgets are under great pressure, especially for those on lower incomes. We recognise that Anglian Water has put customers' bills high on its priority list and this is reflected by the fact that they have only gone up by 10 per cent in real terms since 1990."

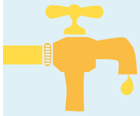
Simon Dry, Chair of the Anglian Water Customer Board

THE MOST MATERIAL ISSUES FOR OUR CUSTOMERS

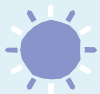
These are the key issues – be they financial, social or environmental – that affect our business and its ability to create value. They are what matter most to our owners, customers and regulators.

Providing safe, clean and reliable water

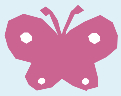
Bills, affordability and profits



Leakage



Resilience and future challenges



Protecting the environment

INNOVATION

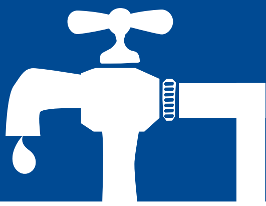
"Anglian Water is at the forefront of innovation in the sector. The support provided and collaborative working between our companies has allowed Syrinix to explore and introduce new proven approaches that can transform how all utilities address the underlying causes of leaks and bursts."

Ben Smither, Senior Engineer at Syrinix

HOW WE'RE ADDRESSING OPPORTUNITIES AND CHALLENGES

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

COMMON TO THE WHOLE WATER INDUSTRY



MARKETS, STRUCTURE AND FINANCING OF THE INDUSTRY

Structural changes currently under way in the water industry will present new challenges and significant opportunities. Following the opening of the market for non-household customers in April 2017, further reform is likely, including in upstream markets, sludge treatment and the provision of new water resources. We are working to secure long-term, stable investment and embrace the opening of markets and other changes as an opportunity to increase efficiency and add value.

In March we announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. This was in response to recent challenges from Ofwat and the Government. We already hold ourselves to the highest standards of accountability and transparency, but we must acknowledge when there is concern and act accordingly. More details can be found on pages 39 and 46.

AFFORDABILITY AND CUSTOMER EXPECTATIONS

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

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

PLANNING FOR THE LONG TERM

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

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

ESPECIALLY ACUTE IN THE EAST OF ENGLAND

REGULATION

dwi
guardians of drinking water quality

Environment Agency

OFWAT

ENVIRONMENTAL PROTECTION

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

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

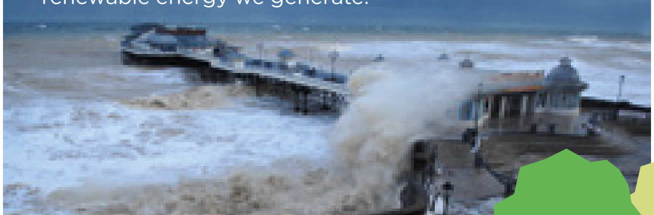
POPULATION AND ECONOMIC GROWTH

Our region has the highest population growth outside of London. The number of households we supply has grown 27 per cent since the privatisation of the water industry in 1989.

By 2040, the region's population may grow by another million people and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services.

CLIMATE CHANGE

Our region is particularly vulnerable to climate change – low lying, with a long coastline and low rainfall. Hotter, drier weather can cause water scarcity and drought. We also expect climate change to mean more intense rainfall and rising sea levels, meaning a bigger risk of flooding. We continue to invest in new water resources and to improve the efficiency and connectivity of our network. We are also investing in flood defences at vulnerable sites, working to reduce our carbon footprint and increase the amount of renewable energy we generate.



OUR LOVE EVERY DROP STRATEGY

OUR SHORT TO MEDIUM-TERM OBJECTIVES

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

For performance against our outcomes see pages 30–69

OUR LONG-TERM OBJECTIVES

We believe that setting long-term goals helps drive us to make major improvements. We've talked to our customers about what matters most to them and about our role in the region. We have agreed four new long-term ambitions to help guide our planning.

Make the east of England **resilient to the risks of drought and flooding**

Enable **sustainable economic and housing growth** in the UK's fastest-growing region

Be a **carbon neutral business** by 2050

Work with others to achieve **significant improvement in ecological quality** across our catchments

For more information see our Strategic Direction Statement 2020–2045 at www.anglianwater.co.uk/sds

HOW WE CREATE VALUE

Our sustainable business model is structured to create long-term value for our customers, shareholders and the environment.

1 THE RESOURCES WE RELY ON

OUR LAND
Needed to collect, treat and return water to the environment, but also rich in wildlife and recreational opportunities.

USED WATER
Collected, treated and returned to the water cycle.

WATER
Taken from rivers and aquifers for treatment and supply.

MANUFACTURED RESOURCES
The steel, concrete, glass and other processed materials we use to build and maintain our infrastructure.

FINANCIAL
Capital, revenue and profits invested in our business.

OUR PEOPLE
Our employees, suppliers and their know-how.

2 HOW WE ADD VALUE

OUR LOVE EVERY DROP CULTURE
Embedding sustainability throughout our business and supply chain.

COLLABORATIONS
with suppliers, academics, and the public, private and charitable sectors to deliver transformational change.

INNOVATION AND THOUGHT LEADERSHIP
From low carbon technology to behaviour change.

STRATEGIC FUTURE PLANNING
Scenario planning, climate and growth projections, regional balance sheet of natural capital and customer insight.

BUILDING AND MANAGING ASSETS
that are efficient, reliable and resilient.

3 WHAT WE CREATE

99 PER CENT
of our SSSI land is in favourable condition, compared to an average for England of 38.7 per cent.

OUR SEWAGE TREATMENT
process generated 90 GWh of renewable energy from biogas this year and will produce about 370,000 tonnes of biosolids for agriculture.

LEAKAGE
is at a three-year average of 183Ml/d against a target of 192Ml/d.

THE AVERAGE BILL
is £1.17 a day, of which just 2p is profit.

EVERY £100 MILLION WE INVEST
creates or secures an estimated 2,000 jobs across our supply chain.

93 PER CENT OF THE APPRENTICES
and 78 per cent of the graduates employed since 2012 are still with the company.

4 OUTCOMES FOR CUSTOMERS AND THE ENVIRONMENT

OUR BUSINESS MODEL IS STRUCTURED TO ACHIEVE 10 ADDED-VALUE OUTCOMES FOR OUR CUSTOMERS AND THE ENVIRONMENT.

DEFINING OUR ROLE IN WIDER SOCIETY

We are mapping our contribution to wider societal goals by aligning our activities and outcomes to the United Nations Sustainable Development Goals (SDGs).

In 2015, the UN developed 17 goals 'to transform our world, to end poverty, protect the planet, and ensure prosperity for all'. We believe that we can directly contribute to many of its targets and the successful delivery of 10 of these goals. These are listed below, together with some of the specific targets our work relates to and where in this report you can find more details.

The £250 million we raised by becoming the first European utility company to issue a sterling Green Bond, used to fund work that's independently certified as being beneficial for the environment, on the London Stock Exchange will fund investment to upgrade our infrastructure and make it *more sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies* (target 9.4).

See page 40

A ground-breaking project with the University of East Anglia has produced a register of our region's natural capital, which will help to *integrate ecosystem and biodiversity values into national and local planning* (target 15.9).

See page 64

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

3 GOOD HEALTH AND WELL-BEING

Our new 25-year surface water management programme will see us managing rainwater closer to where it lands through the use of sustainable drainage systems (SuDs). This will *increase the number of settlements adopting and implementing integrated policies and plans towards resource efficiency, mitigation and adaptation to climate change, and resilience to disasters* (target 11.b).

See page 38

We are the lead sponsor of the Greater Peterborough University Technical College, which aims to provide a world-class technical education with an emphasis on sustainable engineering and construction. This will help to *substantially increase the number of youths and adults who have relevant technical and vocational skills for employment* (target 4.4) and to *ensure all learners acquire the knowledge and skills needed to promote sustainable development* (target 4.7).

See page 52

Our catchment management approach offers a coordinated way to protect the quality of water in rivers, reservoirs and aquifers, by tackling pollution at source and in partnership with those who own and use the land. This should *improve water quality by reducing pollution* (target 6.3) and *protect and enhance water-related ecosystems* (target 6.6).

See page 58

FINANCING OUR BUSINESS

Anglian Water Services Limited is a private limited company that provides the majority of Anglian Water branded services and utilities.

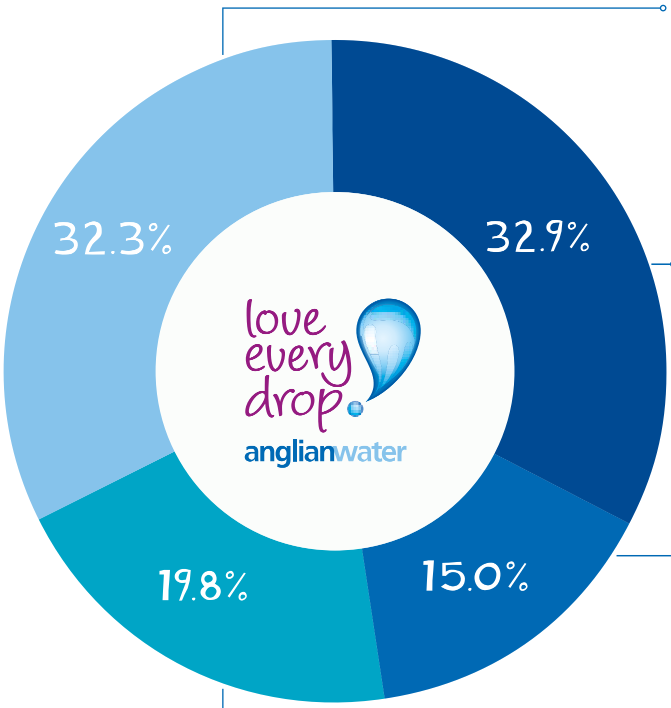
Ownership and company structure

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

OUR CORPORATE STRUCTURE

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

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



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

Origin: Australia

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

Origin: Canada

CAMULODUNUM INVESTMENTS LTD is a joint investment vehicle for Dalmore Capital and GLIL Infrastructure.

Origin: UK

IFM INVESTORS is a global asset manager owned by 28 Australian pension funds, specialising in infrastructure, private equity, debt investment and listed equity.

Origin: Australia

www.anglianwater.co.uk/about-us/who-we-are
More about our corporate structure

AWG Parent Co Limited, AWG Holdings Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. Three of the companies are UK registered and tax resident. AWG Holdings Limited is Jersey registered and Irish tax resident.

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

Anglian Water Services UK Parent Co Limited (AWS UK Parent Co) is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. It is a UK registered company. In May 2018, it replaced the previous second holding company, Anglian Water Services Overseas Holdings Limited (AWSOH), which was a Cayman Islands registered company. The changes were made as part of our commitment to improve the transparency of our financial structures (see page 46).

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

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

OUR LEADERSHIP TEAM

Anglian Water Services Board of Directors

EXECUTIVE DIRECTORS (L-R)

SCOTT LONGHURST
Managing Director, Finance and Non-Regulated Business
Appointed Group Finance Director of AWG in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's non-regulated business.

PETER SIMPSON
Chief Executive Officer
Appointed to the Board of Anglian Water Services Limited in November 2004. Appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013.

JEAN SPENCER
Director of Strategic Growth and Resilience
Appointed to the Board of Anglian Water Services Limited in May 2004. Appointed Director of Strategic Growth and Resilience on 1 April 2017 after 13 years as Regulation Director.

CHRIS NEWSOME, OBE
Director of Asset Management
Appointed in September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS (L-R)

PAUL WHITTAKER N R

NATALIE CEENEY, CBE

STEPHEN BILLINGHAM
Chairman of the Board A N R

STEVE GOOD A N R

DAME POLLY COURTICE, DBE, LVO N R

JOHN HIRST, CBE A N R

NON-EXECUTIVE DIRECTORS (L-R)

NIALL MILLS N R

DUNCAN SYMONDS

JAMES BRYCE N R

P98 See full biographies in the Corporate Governance section

KEY

A Audit Committee

N Nomination Committee

R Remuneration Committee

ANGLIAN WATER SERVICES MANAGEMENT BOARD

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

PETER SIMPSON
Chief Executive Officer

SCOTT LONGHURST
Managing Director, Finance and Non-Regulated Business

RICHARD BOUCHER
Business Change and Strategy Director

SUSANNAH CLEMENTS
Group Director of People

IAIN FRY
Director of Information Services

PAUL GIBBS
Director of Water Recycling Services

CHRIS NEWSOME, OBE
Director of Asset Management

MARK PENDLINGTON
Group Director of Corporate Affairs

ALEX PLANT
Regulation Director

IAN RULE
Director of Wholesale Services and Customer Services

CLAIRE RUSSELL
Group Legal Director/Company Secretary

JEAN SPENCER
Director of Strategic Growth and Resilience

JASON TUCKER
Director of Alliances & Integrated Supply Chain

PAUL VALLELEY
Director of Water Services

OUR YEAR IN REVIEW: PERFORMANCE AGAINST THE OUTCOMES

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

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

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

SMART BUSINESS

RESILIENT BUSINESS

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

To meet this outcome...

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

Performance highlights

- Successfully protected customers from the impacts of the 'Beast from the East' weather system
- Launched our Anglian Water Force campaign to increase the number of volunteers we can call on during an incident
- Further reduced leakage, maintaining our industry-leading position
- Best ever performance on interruptions to supply

LEAKAGE

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

MEGALITRES PER DAY (THREE-YEAR AVERAGE)

TARGET (FOR 2017/18)
192

ACTUAL
183Ml/d

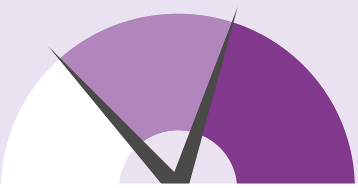
LOW PRESSURE

The number of properties not receiving reference level pressure.

NUMBER OF PROPERTIES

361
TARGET (BY 2017/18)

297
ACTUAL



INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.

TARGET (FOR 2017/18)
12 mins 00 secs

ACTUAL
7 mins 24 secs

MINUTES PER HOUSEHOLD

The importance of resilience – from simply being prepared to responding and recovering – is embedded in all of our activities.

We have a comprehensive set of emergency plans to ensure we are prepared for and can respond to an incident and that our services remain resilient.

To ensure our staff are ready to respond, we continue to develop our training and exercising as part of a comprehensive in-house programme for those likely to be involved in an emergency.

This year we launched our Anglian Water Force campaign to increase the number of volunteers we can call on to help colleagues and customers during an incident. As a result, we now have more than 700 employees across Anglian Water and partner organisations that are prepared to be involved in incident response.

Our Incident Support Managers and our two Customer Support Units make it easier to engage and support a wide variety of customers. In the last year we have deployed the Customer Support Units more than 75 times, helping with everyday events and education in addition to incident management.

Anglian Water is certified to ISO 22301 (Business Continuity Management). This international standard is an extra assurance for customers and key stakeholders that we have the plans and systems in place to keep our business running.

Over the last year we have focused on multi-agency collaboration, to train, exercise and test plans. We continue to collaborate across 13 Local Resilience Forums (LRFs) and the Multi-Agency Support Group for the east of England.

We are on track to complete our AMP6 programme of capital projects to improve security and ensure compliance with government Standards for Operational Assets at our water and water recycling sites. Planning has now begun for further investment in the five years from 2020 to 2025.

TAMING THE BEAST

All of our preparation, contingency planning, training and investment paid dividends in early March, when the UK was hit by the weather system that became known as the 'Beast from the East'.

This brought heavy snow and sub-zero temperatures, which were followed by a rapid thaw. The extreme weather conditions led to a spike in bursts and leaks across the Company's network and on many customers' private pipework. This in turn caused a sudden surge in demand on our water treatment works, reaching levels similar to that seen on a hot summer's day.

Our incident management processes and contingency plans worked well. The Incident Room opened on 28 February to ensure we were prepared for the events to come through scenario modelling; proactive communications with customers, LRFs and partner agencies; increased monitoring; preparation of alternative supplies; and the postponement of planned work.

Despite the unprecedented nature of the challenge, our planning and investment over recent years meant services recovered quickly. Almost no business customers were significantly affected and only 163 homes were without water for more than 12 hours. Over 99.6 per cent of our customers experienced no impact at all, and where problems did occur they were quickly rectified.

This long-term preparation and rapid response led to Anglian Water being singled out for praise by the Parliamentary Under Secretary of State at Defra, Therese Coffey MP. It also ensured our leakage and interruption to supply performance remained unaffected, despite the challenges.

This performance was down to a large number of factors, including, but not limited to, the following:

- making the best use of data from our Integrated Remote Intelligence Service (IRIS) telemetry system and our industry leading Integrated Pressure and Leakage Management system (see page 32)
- our business resilience strategy, based around ISO 22301
- a customer-centric approach of 'restore, repair, recharge' to deal with interruptions to supply (page 33)
- our industry-leading position on leakage, which left us well placed to cope with the increase in demand
- investment in resilience schemes that have reduced the number of customers dependent on a single source of supply (page 63) and given us more options to minimise any impact on customers
- the unique, long-term, collaborative alliances with our major suppliers, which allowed us to quickly put 400 people into the field, including 110 work gangs, to address problems
- the quality of our customer and stakeholder communications
- the resilience and skills of our front-line operational teams, drawn from across Anglian Water, our alliance partners and our Anglian Water Force volunteers.

LEADING THE WAY IN LEAKAGE REDUCTION

We've cut leakage by more than a third since privatisation in 1989 and it is now at record low levels – around half the national average based on the amount of water lost per kilometre of main.

Our Outcome Delivery Incentive (ODI) measures performance using a three-year rolling average, which needs to stay below 192Ml/d. However, we are determined to go much further. We have set ourselves the ambitious target of bringing down leakage by 10.4 per cent, or 20Ml/d, to 172Ml/d between 2015 and 2020. Reducing leakage is a priority for our customers and vital to improve our resilience to drought in this dry part of the country. This year we achieved 183Ml/d compared to 186Ml/d last year.

PROTECTING CUSTOMERS

As mentioned, the bad weather experienced in late February and early March proved a significant challenge. Changing temperatures and accompanying ground movement associated with the deep freeze and rapid thaw led to a spike in bursts of a scale not seen since the winter of 2010/11.

We were able to get on top of the situation much faster than in 2010/11, thanks in large part to the investment and planning that have been put in place since then. As a result of this and the hard work of our teams, customer services were protected, with our efforts earning praise in Parliament.

PUTTING IT ALL TOGETHER

This success is further endorsement of our leakage and pressure management strategy. The main planks of this strategy are:

- **Intensive Leakage Detection teams**

These teams have been formed with the mandate, training and equipment to track down hard-to-find leaks and to proactively target areas where we believe pipes may be coming to the end of their useful life. This year they saved a total of 3.35Ml/d. As part of their arsenal, the teams can call on the services of a thermal imaging drone. We are the first company to use such a machine to detect leaking pipes. In one instance this year, the team used the drone to narrow down the location of a leak on a 1.5km stretch of pipe to within 20 metres, saving time, money and water.

• Integrated Leakage and Pressure Management
Our Integrated Leakage and Pressure Management system brings together information about the network, making it easier to spot and control leakage and to better target our work. This year we implemented phase three of the system, with new and enhanced tools that further improve our ability to target work at areas of the network with rising leakage and to make handling data in the system more efficient.

• Optimised Water Networks
An Optimised Water Network is one in which bursts are prevented through better management of pressure in the pipes. The approach aims to deliver a 'calm' network that provides a reliable and resilient service through a reduction in leaks, low pressure and interruptions to supply while improving serviceability and water quality.

This approach has been continually developing, transforming our network by combining sensor technologies and more traditional pressure management techniques. The use of advanced sensors and equipment has enabled us to better predict and prevent burst mains and to create areas of the network that are optimised and largely able to maintain themselves.

In the first three years of this Asset Management Plan (AMP), Optimised Water Networks have been responsible for a reduction of just over 8.75Ml/d in leakage across the region, saving 6.35Ml/d in the first two years and a further 2.40Ml/d in the third.

Significant schemes have been completed this year in Bedford, Bury St Edmunds and Ely. Once final adjustments are complete, these are expected to deliver a combined saving of 1.9Ml/d, with similar schemes planned for Milton Keynes, Lincoln and Colchester in 2018/19.

This move to a smart, or intelligent, water network has also seen our people become experts in optimisation and provided the opportunity for the first ever Optimisation Apprentices, who are being trained to be specialists in optimisation from source to tap.

The approach is now being taken overseas, with team members delivering the keynote address at the first China Water Loss Summit and visiting Nepal with WaterAid to help transform water supplies there.

LISTENING FOR LEAKS

Our proactive leakage detection work aims to identify issues before customers are aware of them. An example of this work is the mass deployment of noise loggers to identify leaks before they become visible. We are exploring a new type of noise logger that is left permanently in place on the network to continuously listen for leaks. This will tell us exactly when and where a leak occurs, allowing us to fix it as quickly as possible.

In addition, this year we kept our leakage monitoring systems operational at all times, responding to more than 1,512 faults and replacing 106 failed network flow meters. We have formed a dedicated team to manage this process as well as diagnosing, designing and delivering best value solutions to issues that arise when the network does not respond as we expect it to.

This team also coordinates investment needs from an operational perspective. Our Integrated Maintenance and Repair (IMR) alliance partners, Kier and Clancy Docwra, have 89 two-man teams around the region. This year they fixed more than 4,800 burst mains.

KEEPING UP THE PRESSURE

We maintain a register of properties where customers may be affected by persistently low pressure water supplies. From 2010/11 to 2014/15, we reduced the number of properties on the low pressure register from 636 to 505. By 2019/20, we will deliver proactive improvement schemes to reduce this to 257 properties. We had an interim target of 361 properties by the end of 2017/18. In fact, we have now reduced the number of properties to 297 and more will be removed from the register in the coming year as part of our planned investment programme.

INTERRUPTIONS TO SUPPLY

When supplies are interrupted through a burst or other problem, our priority is to restore that supply rather than immediately fixing the cause. This customer-first approach has seen big reductions in the amount of time people are left without water.

Our performance is the subject of an ODI that measures the number of customers left without water for more than three hours. A formula converts the length of interruptions and the number of customers affected into an average time for the region. By the end of 2017/18, the average time had to fall to 12 minutes if we were to avoid penalties.

In the last 12 months, the average time has fallen by more than 4 minutes, from 11 minutes and 43 seconds to 7 minutes and 24 seconds.

This is testament to our approach, to our work with other parts of the business to tackle the causes of interruptions, and to the effective management of events when they occur. Our efforts also complement the pressure management and other proactive work being done to prevent problems happening in the first place.

RESTORE, REPAIR, RECHARGE

Three more technicians have joined our dedicated Restoration team this year, bringing the number to 21, based at three locations around the region.

All are trained to drive the water tankers in our newly expanded fleet and to use a variety of equipment and techniques, including temporary overland pipes to keep people supplied. The technicians also carry lengths of chlorinated pipe and all the fittings necessary to build temporary, above-ground, small-scale water supply networks. These can keep a number of homes supplied indefinitely during an incident. Tankers and overland pipes alone have kept water flowing to 61,619 properties that would otherwise have seen their water cut off.

Working with key teams, such as the Optimisation, Tactical Operations and local field teams, we have been looking at other reasons customers' supplies may be interrupted. These include power failures at our water treatment works, towers and reservoirs, so we are investing in technology to allow remote operation of key boosters and pumps and faster restoration of water supplies in such cases.

A trial of mobile pressure loggers has shown them to be useful in tracking the return of supplies following an interruption, so these will be made available to all network technicians. At the same time, we are looking to install intelligent alarms on our permanent pressure loggers and elsewhere in the network, to give early warning of problems before customers are affected.

EVERY SECOND, AND EVERY CUSTOMER, COUNTS

Despite all of these efforts, the way calculations are made means a single major event could set us back. The only way to reduce the impact of large events is to make every second count each time there is an interruption to a customer's supply. We will continue working to minimise the number of supply interruptions and to respond quickly when they do occur.

Restoration team members with tanker.

KEEP IT CLEAR

Blocked pipes are a major cause of sewer flooding. These blockages are often caused by a combination of fats, oils and grease (FOG) and items like wipes and sanitary products, which are wrongly poured down sinks or flushed down toilets.

Keep It Clear is our pioneering programme that aims to change the way people dispose of FOG and unflushable items. We engage with customers, communities, councils and businesses in a variety of ways, with targeted campaigns and ongoing education work, disseminating information through voluntary organisations.

Allowing trusted local community groups to lead on awareness-raising activities is a key element of the programme. It puts the problems in a local context and gets across the message that we can all help to solve them.

Over the last year we have visited more than 2,000 properties in high-risk areas, offering advice and gathering information on people's waste disposal habits. In the first six months, we saw an 84 per cent reduction in blockages in the areas targeted. The approach is being extended to help influence behaviour change, reduce blockages and pollutions, and increase customer satisfaction among difficult to reach groups within communities.

We have also been working with schools; trialling lesson plan materials around periods to spark debate about the proper disposal of sanitary products. Packs have been requested by 3,500 teachers and their feedback will inform a national roll-out.

Correct management of fat, oil and food waste from the 44,500 restaurants, cafés, pubs and other eating places in our region is another important part of Keep It Clear. We have teamed up with SwiftComply to offer free kitchen FOG audits to food premises to make compliance with waste disposal regulations simple and straightforward. Together, we can better target FOG hotspot areas and offer business owners advice on installation of grease management systems.

At a national level, our Keep It Clear programme manager chairs Water UK's Sewerage Network Abuse Prevention Group and the customer behavioural change workstream of its 21st Century Drainage programme, both of which lobby for regulatory changes in the whole area of drainage misuse.

Partnership working continues with the British Retail Consortium, Business in the Community, major retailers, manufacturers and others to raise customer awareness on what not to flush or pour away.

DRIVING THE MESSAGE HOME

This year we introduced some new livery for our water recycling vans, featuring monsters made from the fat poured down sinks and the wet wipes flushed down toilets.

The monsters were designed by the Marine Conservation Society as part of its own Unflushables campaign, with support from Anglian Water.

The collaboration also led to the introduction of a fats, oils and grease (FOG) monster alongside the Society's existing wipes monsters, to show how these cooking by-products can cause blockages that result in smells, sewer flooding of homes and gardens, and even pollution of rivers, beaches and seas.

A van with the new messaging was unveiled by Thérèse Coffey, the Suffolk Coastal MP and Parliamentary Under Secretary of State at Defra, at Nacton Church of England Primary School in November.

INVESTING FOR TOMORROW

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

To meet this outcome...

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

Performance highlights

- Launched a new 25-year surface water management programme
- Good performance against all water and water recycling serviceability measures
- Remain ahead of our ODI target for the number of pollution incidents

INTERNAL FLOODING

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

NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

TARGET (BY 2019/20)
448

ACTUAL
396

EXTERNAL FLOODING

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

NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

TARGET (BY 2019/20)
6,159

ACTUAL
4,824

PERCENTAGE OF SEWERAGE CAPACITY SCHEMES USING SUSTAINABLE SOLUTIONS

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

TARGET (BY 2019/20)
25%

ACTUAL
46%

POLLUTION INCIDENTS

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

298
TARGET (FOR 2017/18)

219
ACTUAL

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

Delivering the outcomes our customers want demands the closest possible collaboration between us, our suppliers and our contractors. Our alliances differ from those elsewhere in the industry, with an unparalleled degree of integration and alignment, and the opportunity for longer-term collaboration.

We have continued to focus on the low carbon, low whole-life cost and on-time delivery of schemes while ensuring we meet quality standards. We and our alliances have been tasked with finding 15 per cent efficiency savings compared to our AMP5 cost base, and we are constantly working to become ever more efficient, challenging ourselves and setting stretching goals.

At the start of AMP6, our industry moved to a totex incentivisation model that encourages a more balanced approach to investment decisions and allows us to focus on the best, most efficient and sustainable, long-term solutions for our assets throughout their operational lives. We continue to work hard to embed this way of thinking across our Company and our entire supply chain.

As a result, we are currently outperforming against our targets. This allows us to deliver our investment programme at best value while delivering our obligations, improvements to customer service and a shareholder return. It will also be possible to pass some of the efficiencies back to customers in the next AMP and to reinvest in services.

LOOKING AHEAD

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

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

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

A new drive around water footprinting will help us towards our long-term goal of being a carbon neutral business by 2050, while further embedding totex principles will help us get the best possible value from our assets.

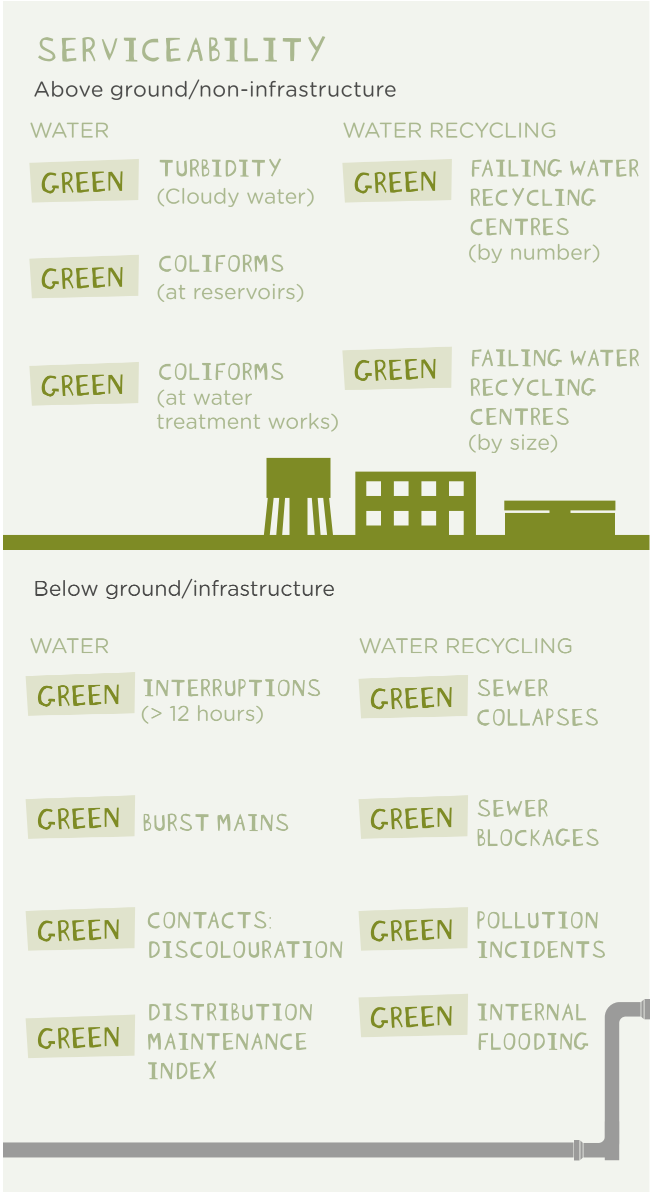
SERVICEABILITY – KEEPING OUR ASSETS FIT FOR PURPOSE

A good service relies on well-maintained assets – the pipes, pumps, works, equipment and buildings that allow our business to operate. Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in assets to keep their service at an acceptable level. A number of Outcome Delivery Incentives (ODIs) have been put in place to ensure strong service in this area, with substantial penalties and rewards dependent on our performance.

Serviceability is assessed by 13 measures, split over four types of asset. For each measure we agree a normal or 'reference level', which is typically close to the best historical performance. There is also an 'upper control limit', which is the worst level of performance that can be accounted for by reasonable natural variation. We must make sure that we do not perform worse than this upper control limit or we risk incurring a penalty.

WATER

Throughout the year, we have delivered good performance at our water treatment works and across our networks. This included just four works coliform failures, following improvements to our treated water tank inspections.



WATER RECYCLING

Overall the year ended with all water recycling measures within control limits, both for water recycling centres (WRCs) and for our sewerage network.

The Environment Agency (EA) reviews sample results from 755 of our WRCs to assess the quality of the water we return to the environment. This year we had eight failing works, which is higher than the exceptional performance of 2016, but still an improvement on where we were at the beginning of AMP6.

We combine data from on-site processes, telemetry and lab samples to produce reports that show how our WRCs are performing in almost real time. Such close monitoring allows us to respond rapidly to risks at our sites, improve efficiency and reduce costs. In-depth analysis improves our understanding of how to enhance the condition and performance of sites and equipment.

The flow, or volume of water discharged into the environment, plays a big part in assessing the compliance of our WRCs. The impact of a discharge on the receiving water is directly linked to its volume, so the EA places limits on the flows that leave sites during dry weather.

To ensure compliance, we carried out 239 flow investigation audits during 2017, looking at the quality of our data, the reliability of flow meters and our breakdown response. The EA has noted our good performance in the provision of this data.

We also delivered a large number of schemes at our WRCs to ensure compliance with the Water Framework regulations, including the new Event Duration Monitoring obligation. These schemes include the installation of Event Duration Monitoring at 177 sites to monitor and report on overflow discharges. Delivery of these schemes is covered by the EA's Environmental Performance Assessment (EPA). Although, the final numbers are not confirmed until June, it is expected that we will maintain our Good 'three star' status. There is also an ongoing programme of work to ensure compliance with our Water Recycling Environmental Compliance ODI.

Due to the importance of the work carried out at our WRCs, we are developing an Advanced Licence to Operate scheme for our optimisers. The programme aims to develop the full range of skills and knowledge technicians need to identify, manage and complete projects that enhance our treatment process.

PREVENTING POLLUTION

Our performance was very close to last year with 219 Category 3 incidents (an increase of just two), meaning we remain ahead of our ODI target to have no more than 298 incidents by the end of 2019/20.

This number compares to 390 such incidents in 2014, and our priorities remain the same: a continued focus on predictive analytics, to use information on past pollutions to predict where we may have problems in the future, and on proactive mitigation to quickly and efficiently resolve any problems to avoid environmental impact.

The number of Category 2 incidents fell slightly to eight, and there was one Category 1 incident during the year when an issue at a pumping station led to untreated sewage escaping through an emergency overflow and into a brook. Fortunately, these incidents are very rare and we continue to work to improve our systems to avoid them.

This year saw the launch of a dedicated pollution app for our front-line staff, allowing them to share real-time information during an incident and to gather clear and consistent evidence about whether or not a discharge has an impact on the environment.

We have also continued to raise awareness and knowledge of our potential impact on the environment among all operational teams in Water Recycling, through detailed briefings, a user guide and revised online training modules.

Our Pollution Watch campaign continues to raise public awareness about the causes of sewage pollution, the impact it has and the signs to look out for. The phone line for people to call if they spot any of these warning signs has been used to great success.

We remain dedicated to challenge and evolve our approach towards our goal of no pollutions.

This year saw major penalties for some companies following prosecutions brought by the EA. The courts have made it clear that failure to bring improvements will lead to fines large enough to have a significant impact on water company finances. We had a fourth successive year without prosecution.

ENFORCEMENT UNDERTAKINGS

Enforcement undertakings are donations made to local environmental organisations to compensate for damage caused by pollutions. We take our responsibilities to the environment very seriously and payments like this make a real difference locally rather than going to central government. Such donations are agreed with the Environment Agency. This year we donated £240,000 through enforcement undertakings.

SEWER FLOODING

This has been our best year to date for the number of internal and external flooding incidents from our sewer network.

Our performance in this area is measured against two separate ODIs that look at the three-year average for incidents of internal and external flooding. Three years into the AMP, we are beating our target for both internal and external flooding. The current three-year rolling average for internal flooding events is 396, against a target of 448 for the end of 2019/20, while the figure for external flooding stands at 4,824, against a target of 6,159.

We have continued to spend money on measures such as non-return valves and flood doors, which reduce the risk of flooding to individual properties and which are more cost-effective than large-scale engineering schemes.

Such schemes might cost millions of pounds to protect a handful of properties, making them an inefficient use of money and limiting the number of customers we could help. The change of focus allows us to reduce the risk of flooding to far more properties for a fraction of the cost.

Investment has been targeted in areas where properties are vulnerable to flooding caused by storms, and by the failure of assets such as local sewage pumping stations.

Households are also being provided with Keep It Clear information packs, explaining the problems that can be caused by sewer blockages and the steps people can take to reduce them and protect themselves from flooding.

We are still investing in large-scale engineering solutions where property-level protection is not possible. These schemes are being prioritised on the risk of flooding and on its possible consequences for our customers.

Both the continuing reduction in flooding incidents and this year's record-setting performance are very encouraging, especially as this year will count towards our three-year rolling average for 2019/20. Extreme weather remains a threat, however, as all incidents of sewer flooding count towards our performance, regardless of the cause.

A NEW APPROACH TO SURFACE WATER FLOODING

The management of surface water has a key role to play in meeting the challenges we face from climate change and growth.

At present, more properties across our region are at risk from surface water flooding than from fluvial or coastal flooding combined. Having to deal with that surface water can also cause our sewers to overflow at times of peak flow, leading to sewer flooding, pollution and an increased carbon footprint associated with pumping and treatment.

But successful management of surface water can provide headroom in our network to cope with growth, while mitigating the risks from climate change and urban creep.

With this in mind, our new 25-year surface water management programme has a number of key drivers, including:

- managing growth
- managing flood risk from sewers and other local sources of flood risk
- reducing pollution incidents and escapes from the public sewer, pumping stations and water recycling centres
- reducing energy costs through reduced treatment and pumping of surface water
- delivering a flourishing environment that provides our customers with access to good air quality, recreational space and amenity areas.

Our strategy will give careful consideration to the interaction between our sewer network and above-ground drainage, such as highway gullies and ditches, and how these can be best managed to reduce surface water flood risk.

A new approach, building on our AMP6 experience, will see us managing rainwater closer to where it lands through the use of sustainable drainage systems (SuDS). Instead of traditional concrete storage tanks and bigger pipes to increase the capacity of sewerage systems, SuDS involves low carbon alternatives like rain gardens, and uses the landscape to improve surface water drainage by channelling excess water away from homes and businesses.

SuDS and so-called super SuDS that serve a number of developments allow a much more strategic approach to drainage. They can also help to unlock building and growth. This approach will provide significant benefits, but is a continual cultural change for engineers, customers and regulators that will take many years to implement.

We have already begun setting ourselves a target for AMP6 to deliver 25 per cent of our sewerage capacity schemes using sustainable solutions. This is a challenge, as such an approach has never been tried before. We have delivered 22 schemes in total using sustainable solutions so far this AMP, including 12 in this financial year.

Over the next 25 years, we have set ourselves a number of challenging targets:

- Where appropriate, sustainable and cost-effective, we will use SuDS to manage 100 per cent of the unwanted surface water flows that are currently sent to water recycling centres and pumping stations.
- We will significantly enhance the communities we work with by delivering substantial environmental benefits.

Success will require the support of our customers and partners across the region. Together, we believe it is possible to deliver a more sustainable approach to managing surface water.

LEARNING FROM OUR WORK IN WISBECH

We have been working with Fenland District Council and with Royal HaskoningDHV and its Dutch partners to ensure any new housing in flood-prone areas is safe, sustainable and meets the requirements of the National Planning Policy Framework.

We have been organising and running sessions that make use of an interactive map table, together with a state-of-the-art modelling package – 3Di –developed in the Netherlands and never before used in the UK.

This approach has now been transferred to other areas. We are working with Royal HaskoningDHV and with 3Di in our Innovation Shop Window in Newmarket and in the catchment served by our Pyewipe water recycling centre in Grimsby. We want to better understand what the modelling is capable of and how we can best use it to meet the wider challenge of sustainable growth and development across the Anglian Water region.

FAIR CHARGES, FAIR RETURNS

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

To meet this outcome…

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

Performance highlights

- Significant improvements to the transparency and clarity of our financial structures
- Extra investment of £65 million in resilience announced
- Bills at £1.17 a day on average for 2018/19
- Total direct and indirect tax contribution of £227 million

PER-PROPERTY CONSUMPTION

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

TARGET (BY 2019/20)

305

ACTUAL

316

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

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

IMPROVING TRANSPARENCY, BUILDING TRUST

In March, we announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. Together, they will bring more clarity to our finances, increase investment in services, reduce dividends and borrowing, and place public interest firmly at the heart of our business.

We have removed our Cayman Islands company from the corporate structure. As explained on page 47, the Cayman Islands company – Anglian Water Services Overseas Holdings Limited (AWSOH) – is UK tax resident and has never benefited from any tax advantage. Nevertheless, removing it improves the transparency and clarity of our financial structures. As part of the change, we have also repaid an inter-company loan to simplify the presentation of our accounts. There was no financial impact on Anglian Water Services as a result.

The composition of the Anglian Water Services Board is being changed to ensure that Independent Non-Executive Directors are in the majority, and not just the largest group.

In addition, dividends are being reduced through to 2025, resulting in a significant reduction in the Company's level of debt and gearing.

All these commitments respond to recent challenges from our economic regulator Ofwat and the Government, and build on work with Ofwat to address the sector's long-term resilience. We already hold ourselves to the highest standards of accountability and transparency, but we must acknowledge when there is public concern and act accordingly.

Together with our pension fund-backed shareholders (see page 26), we recognise that further changes will help to strengthen trust and confidence in the water industry.

SHARING THE REWARDS

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

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

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

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

The Board has already announced it will invest an additional £100 million in services over the rest of the AMP. It has now agreed to invest an extra £65 million in resilience schemes not included in the Company's original plan by 2020.

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

RESPONSIBLE FINANCING

Anglian Water has always raised its debt through UK registered companies, and its debt is listed on the London Stock Exchange. Our latest fundraising – a £250 million, eight-year bond – was done through a listing on the Green Bond segment of the London Stock Exchange and in accordance with the Green Bond Principles 2017. We were the first European utility company to issue a sterling Green Bond[1].

CHALTON WATER RECYCLING CENTRE

Chalton Water Recycling Centre in Bedfordshire has been transformed into the biggest sand filtration site in Europe. The site's treatment lagoons have been retired and 30 12-metre-high sand filters installed to provide tertiary treatment and better protection for the area's sensitive environment. The filters will break down ammonia in the final stages of sewage treatment, removing it from the water that is returned to the environment at the end of the process. This should safeguard the nearby Flitwick Moor, which is a Site of Special Scientific Interest (SSSI). The filters were prefabricated in Ireland by Colloide Engineering Services, before being shipped to site. The £12.4 million scheme also involved installation of two new balance tanks. Building the filters off-site meant less disruption for people living in the nearby village of Chalton, cutting the time spent on site by half. Along with the use of 3D modelling and the reuse and repurposing of existing infrastructure, the off-site build also helped to reduce the project's carbon footprint. The scheme achieved a 70 per cent reduction in embodied carbon.

INGOLDISTHORPE WETLAND

We have created a huge new wetland next to Ingoldisthorpe Water Recycling Centre in Norfolk to act as an innovative natural treatment plant. The one-hectare site will provide both a low carbon way to remove ammonia and phosphorus from treated water and a home for wildlife. While the water recycling centre already removes the majority of ammonia and phosphorus in line with environmental permits, the wetland will filter it further.

Ingoldisthorpe Water Recycling Centre discharges into the River Ingol, which is a chalk stream – an internationally rare and important wildlife habitat. The Environment Agency has set extremely tough standards for the quality of the water being returned to the river. To meet the standards, extra treatment was needed and so we took the decision to work with nature, harnessing the natural ability of wetland plants to remove nutrients from water. Once farmland, the wetland cost £3.1 million to create. It consists of four lagoons, planted with reeds, sedges and other native plants, all brought in from other parts of Norfolk.

Green Bonds see investors lend businesses money to fund work with positive environmental benefits. Before a business can offer this type of investment, it must first meet strict criteria to make sure its processes are sustainable.

Many businesses choose not to seek investment with Green Bonds as they consider it too difficult to evidence the necessary standards for demonstrating sustainability under the principles required by bond investors. In our case, we didn't have to change any of our day-to-day processes to qualify for the bond. This is thanks to the sustainable way of doing business enshrined in our Love Every Drop strategy.

To celebrate the launch of the bond, the London Stock Exchange invited Anglian Water to open the market in August 2017.

1 The Anglian Water Green Bond Framework supports the financing of our water and water recycling projects that demonstrate our environmentally sustainable management of natural resources and land use, as well as climate adaptation.

The money raised will finance a range of activities, including innovative water abstraction projects, drought and flood resilience schemes, and progressive water recycling and water resource management projects. Two of these projects are detailed here.

We have now spent £276 million on the projects funded by the Green Bond. With the 30 per cent spend buffer, this means £44 million of the bond proceeds are still to be deployed. In total, we are on track to deliver a reduction in CO_2 of 84,713 t/CO_2e.

FAIR CHARGES

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

At the start of the current AMP, survey scores for the industry were used to calculate an average for each measure. Our score in relation to each of the four averages was set as a baseline. Each year the surveys are repeated and new averages are worked out. Our score in relation to the new averages is compared with the baseline performance to determine whether our relative performance in the sector is improving or declining. We are committed to at least maintaining levels of satisfaction in each area.

Overall, we have seen a positive increase in all areas relating to fairness, affordability and value for money, earning an ODI reward of £800,000 in 2017/18.

In 2017/18, 79 per cent of our customers said they thought their water bills were good value for money, an increase on 73 per cent in 2016, meaning we are now 7 per cent above the industry average. Correspondingly, 78 per cent of our customers said they thought their sewerage bills were good value for money, up on 76 per cent in 2016, placing us 3 per cent above the industry average.

Sixty-seven per cent of our customers thought their bills were fair, a 3 per cent increase on last year, placing us 6 per cent above the industry average and in a leading position.

Eighty-one per cent of our customers thought their bills were affordable, 6 per cent up on 2016. This is 8 per cent above the industry average, which is also up by 6 per cent from last year and puts us in an industry leading position.

In our five-year business plan to 2020, we committed to keep bills as low as possible, while at the same time delivering an investment programme to maintain and improve essential water and sewerage services.

In 2015/16, customers on average saw their annual bill drop by around 9 per cent – the biggest reduction of any major water company in the UK, and twice the industry average. While bills have risen since, they are still lower than they were five years ago. For 2018/19, we were able to keep increases to 0.7 per cent, well below the level of inflation.

HELP FOR THOSE WHO NEED IT

In April 2015, Anglian Water introduced its social tariff LITE (Low Income Tariff for Eligible Households). LITE is administered in partnership with the Citizens Advice Bureau and Orbit. On average, we receive over 1,000 referrals per month, with 70 per cent of eligible applicants receiving the maximum discount of 80 per cent. This can see the average customer household bill reduce from £427 to just £85 a year.

As part of the financial assessment for LITE, our customers also receive a benefits maximisation check to see it they are claiming all assistance to which the household is entitled. To date, our partners have identified in excess of £4 million in potential benefit gains for applicant households, with the average benefit gain for qualifying households equating to £3,000 per annum.

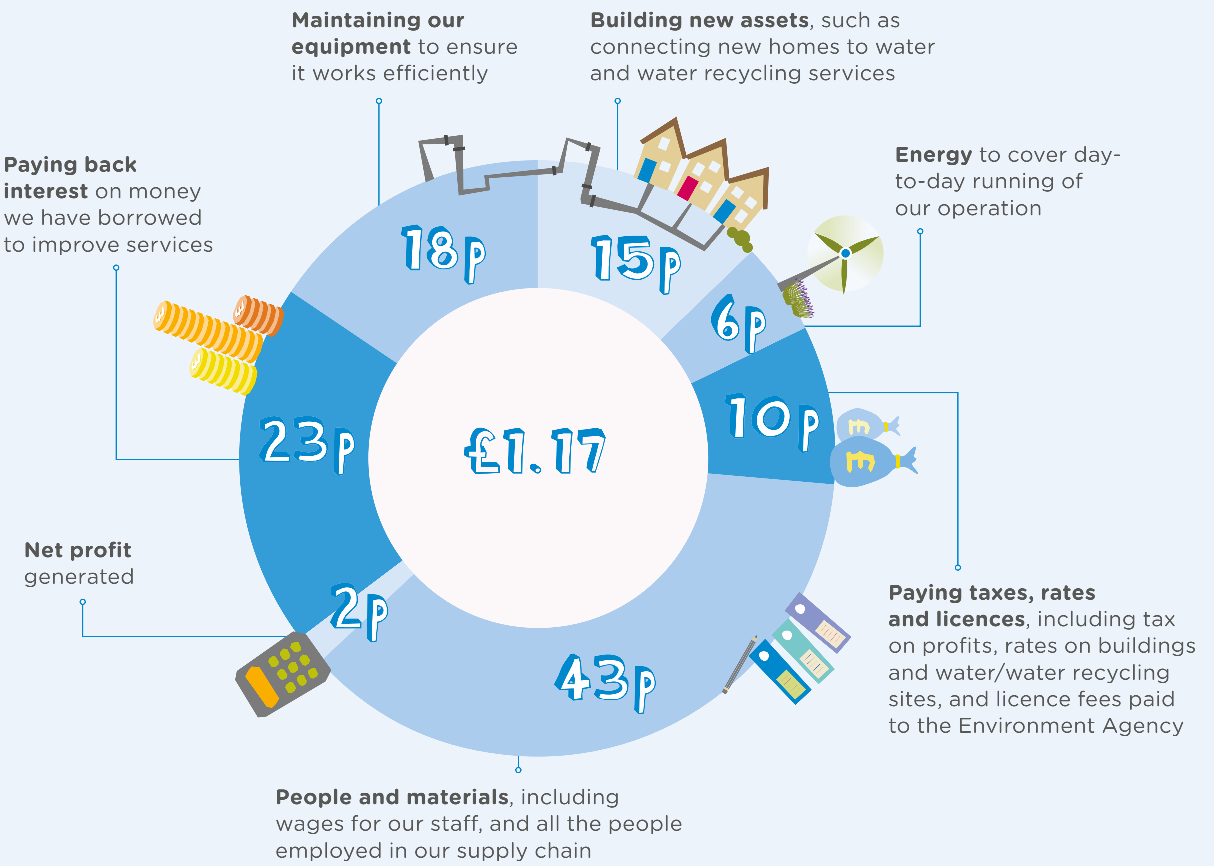
Our partnerships have been able to assist customers with far more than help with their water bill. Customers have benefited from a wide range of assistance, ranging from free legal advice and support back into employment to help in obtaining grants to pay for school uniforms.

We operate a number of other tariff schemes for vulnerable customers, including the AquaCare Plus and WaterSure tariffs. Altogether, these schemes are providing assistance to over 120,000 customers.

As well as our tariff schemes we help customers in managing their payments to us with schemes like Back on Track, instalment plans and settlement agreements. Through these repayment schemes, we are able to assist a further 60,000 customers.

Over the coming year we will be looking to introduce even more help for those of our customers who need it – with measures like payment holidays, for example. We'll also be getting out into the local communities more to highlight and raise awareness of all the help available.

Based on the average household bill in 2017/18, water and sewerage charges will cost £1.17 per day. This is how we spend that money:



WHERE DOES CUSTOMERS' MONEY GO?

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

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

For 2018/19, bills will be £429 on average, or £1.17 a day, of which just 2p is net profit.

METERING AND WATER EFFICIENCY

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

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

Our Wave programme – where we combine all the elements of metering and water efficiency in defined geographical areas – has made good progress, installing 15,000 new meters and proactively replacing 80,000 more across Norfolk and Buckinghamshire.

Away from Wave areas, customers can still request a meter. In this case, we will provide advice and fit free water-saving devices while surveying to fit the meter. Our target is to have visited 48,000 such customers over the five years to 2020.

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

GETTING SMARTER

We are now running a second smart metering trial in Norwich, installing 12,000 smart meters across the city. These are in addition to the 7,500 we fitted in our Innovation Shop Window in Newmarket in 2016/17.

The meters remotely collect hourly consumption data, which helps customers understand their water use, and helps us to better understand how our water network operates. It has also alerted some customers to large leaks on their private supply pipes. In one case, it allowed us to quickly spot a spike in water use caused by a leaky toilet. Unchecked, this would have cost the customer an extra £160 a month.

We have now developed an online customer portal that lets people view their own consumption data more easily and see where they could save water. Customers in Newmarket have started signing up and we are measuring its effectiveness. Early signs are that it does help people use less water.

ATTRACTING INVESTMENT

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

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

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

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

OUR DIVIDEND POLICY

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

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

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

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

TAX

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

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

Our taxable profits are less than the profits shown in our accounts, and our effective rate of corporation tax is less than the statutory rate of corporation tax. This is because of the huge amount of investment we bring into our region and the HM Revenue & Customs (HMRC) rules on interest payments and capital allowances designed to encourage that investment.

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

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

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

This also means some of our corporation tax liabilities are deferred until later. The corporation tax is not avoided, it is simply deferred.

All this encourages investment and allows us to make a real contribution to infrastructure development, environmental protection and customer engagement in our region.

By making use of the available tax reliefs, we are able to keep customer bills lower.

AN OPEN AND CONSTRUCTIVE APPROACH

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

Tax planning and compliance

- We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We are registered for tax in the UK and do not engage in artificial tax arrangements. As set out on pages 46 to 47, we have removed our Cayman Islands company from the corporate structure. This company was UK tax resident and never benefited from any tax advantage.
- We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development (OECD) principles and Regulatory Accounting Guidelines.
- We adhere to relevant tax law and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.
- We believe we are compliant with UK tax legislation and pay the right taxes at the right time.
- Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.
- Due consideration will be given to the Group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of directors and employees of the Group and will form part of the overall decision-making and risk assessment process.

Relationships with tax authorities

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

Tax risk management and governance

- Anglian Water has a comprehensive, multi-layered risk management system, which consists of risk registers for all areas of the business. These registers are subject to both internal and external review. We have a specialist tax team who identify, assess and manage tax risks and account for them appropriately. We implement risk management measures, including controls over compliance processes, and monitor their effectiveness.

- On a periodic basis the Board reviews how risks are managed, monitored and assured, and on any improvements being made. In this way the Board provides governance and oversight of significant risks.
- Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

OUR TAX CONTRIBUTION

The Company's total tax contribution for the year extends significantly beyond the payment for corporation tax.

Total tax paid or collected in the year to 31 March 2018 amounted to £227 million (2017: £210 million), of which £71 million was collected on behalf of the authorities for value added tax (£35 million) and employee payroll taxes (£36 million).

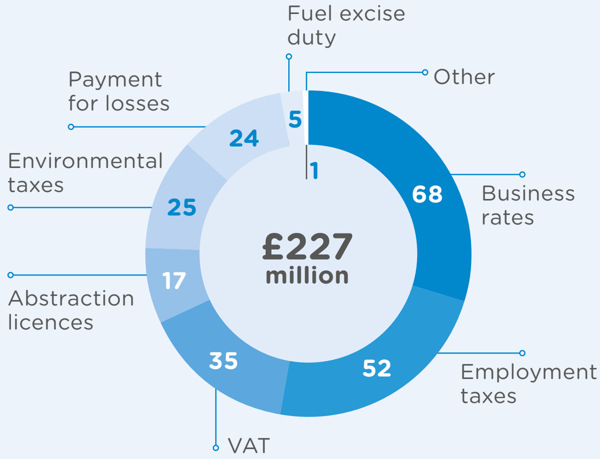
The most significant taxes involved, together with their profit impact, were:

- business rates of £68 million paid to local authorities. This is a direct cost to the Company and reduces profit before tax
- employment taxes of £52 million, including £36 million of employees' Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, Employer NICs of £16 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets
- VAT of £35 million collected and paid to HMRC. VAT has no material impact on profit before tax
- payments of £24 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to the Company. This has no impact on profit before tax
- abstraction licences and direct discharges of £17 million. This is a direct cost to the Company and reduces profit before tax
- Fuel Excise Duty (FED) of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- environmental taxes of £25 million were charged to operating costs, reducing profit before tax.

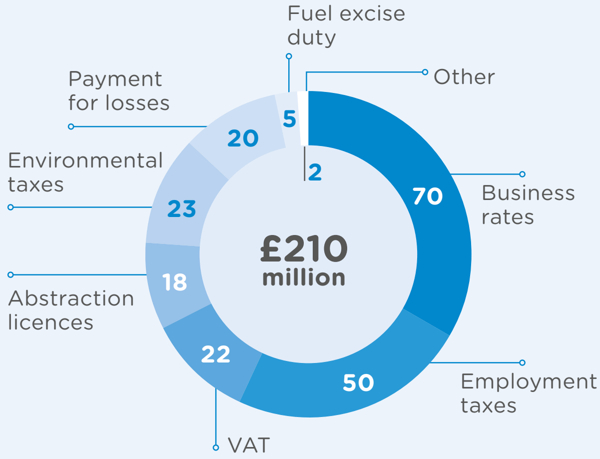
TOTAL TAX CONTRIBUTION

Figures in £ million

2018



2017



OUR RESTRUCTURING EXPLAINED

Anglian Water has become the first UK water company to complete the removal of its Cayman Islands company from its financial structure.

The removal of the Cayman Islands company is one of a range of commitments the Company made earlier this year to improve transparency, trust and customer confidence. Anglian Water has also repaid an inter-company loan to simplify the presentation of its accounts and allow for greater clarity of financial reporting, in particular around actual dividends paid.

The changes come after the Board of Anglian Water – in conjunction with its pension fund-backed shareholders Colonial First State Global Asset Management, Canada Pension Plan Investment Board, IFM Investors and Camulodunum Investments (Dalmore Capital and GLIL Infrastructure) – unanimously backed a series of financial and corporate initiatives to improve transparency, trust and customer confidence.

ANGLIAN WATER SERVICES FINANCING GROUP: BEFORE AND AFTER RESTRUCTURING

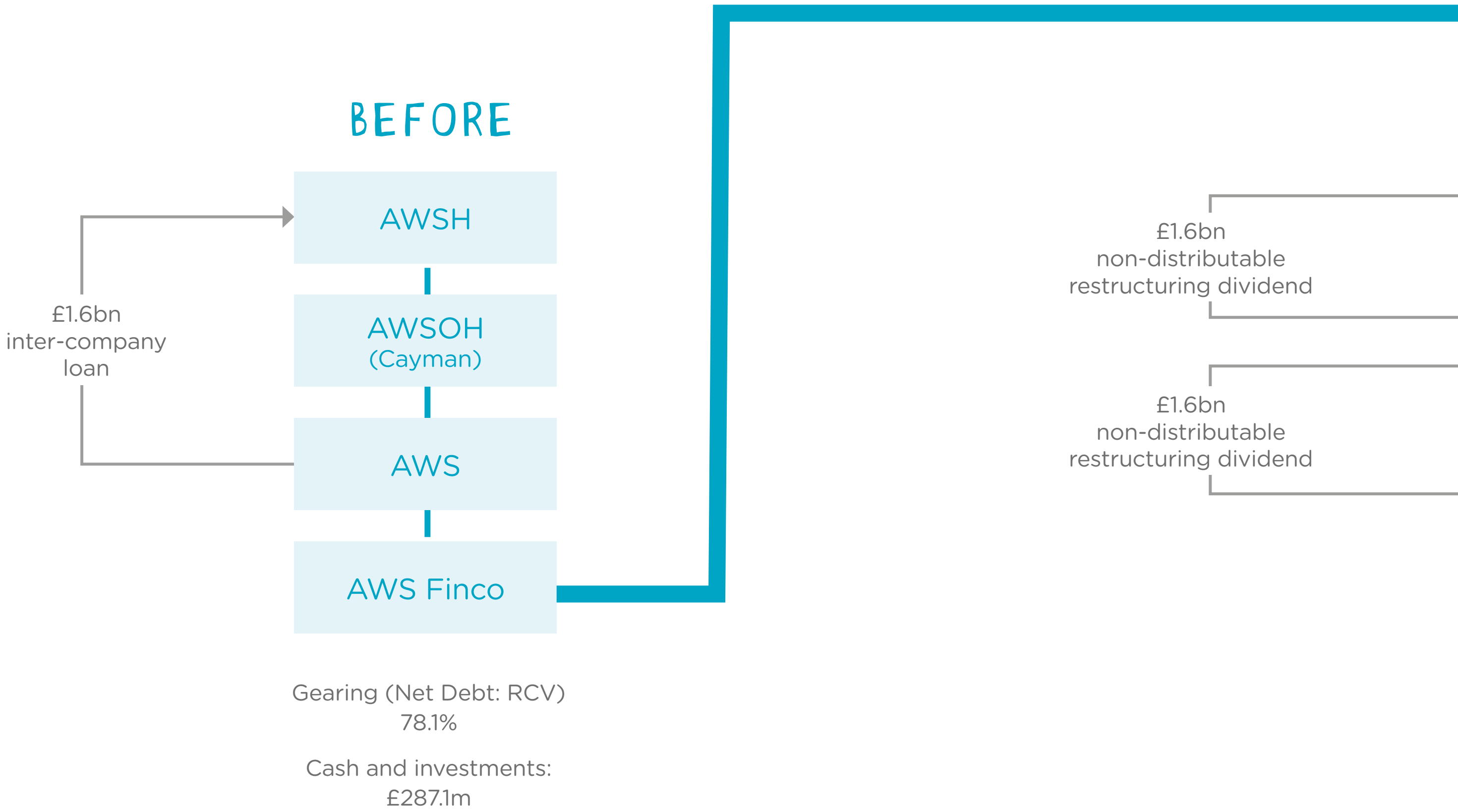
The inter-company loan has been repaid, and lender consent and Court approval has been received for the Cayman Islands holding company to be removed from the structure and replaced with a UK holding company. We have now completed the final administrative processes to remove the company from the ring-fenced financing group and the company will be liquidated later this financial year.

STEP 1

REPAYMENT OF THE INTER-COMPANY LOAN

History: As part of AWS's securitisation in 2002, two new holding companies were set up to protect customers and lenders from unrelated risks associated with other non-regulated AWG group companies. These new holding companies, as shown in the diagram, were Anglian Water Services Holdings Limited (AWSH) and Anglian Water Services Overseas Holdings Limited (AWSOH). At that time, as part of establishing the structure, an inter-company loan was put in place between AWSH and AWS. AWS has paid dividends each year, not available for onward distribution to shareholders, which flowed up to AWSH to enable AWSH to immediately pay interest on the loan back to AWS of an amount equal to the dividend paid up. This purely mechanical 'cash round-trip' process did not result in any reduction of AWS's cash, but it has complicated the presentation of the AWS accounts.

Action taken: On 29 March 2018, AWS paid a one-off non-distributable restructuring dividend of £1,602.6 million, which flowed up to AWSH, and AWSH used the proceeds to immediately repay the inter-company loan. There was no net cash impact for any of the companies involved, as all cash was immediately returned to AWS. In future, the presentation in the accounts of dividends paid will therefore be much more straightforward.



STEP 2

REMOVAL OF THE CAYMAN ISLANDS COMPANY

History: Our Cayman Islands registered company, AWSOH, has always been UK tax resident, and the Group has never sought or gained any tax advantage from the structure or its location. The company was set up in 2002 to facilitate the securitisation. Subsequent changes to UK legislation mean we would not need to set up an overseas company if we were setting up the securitisation structure today.

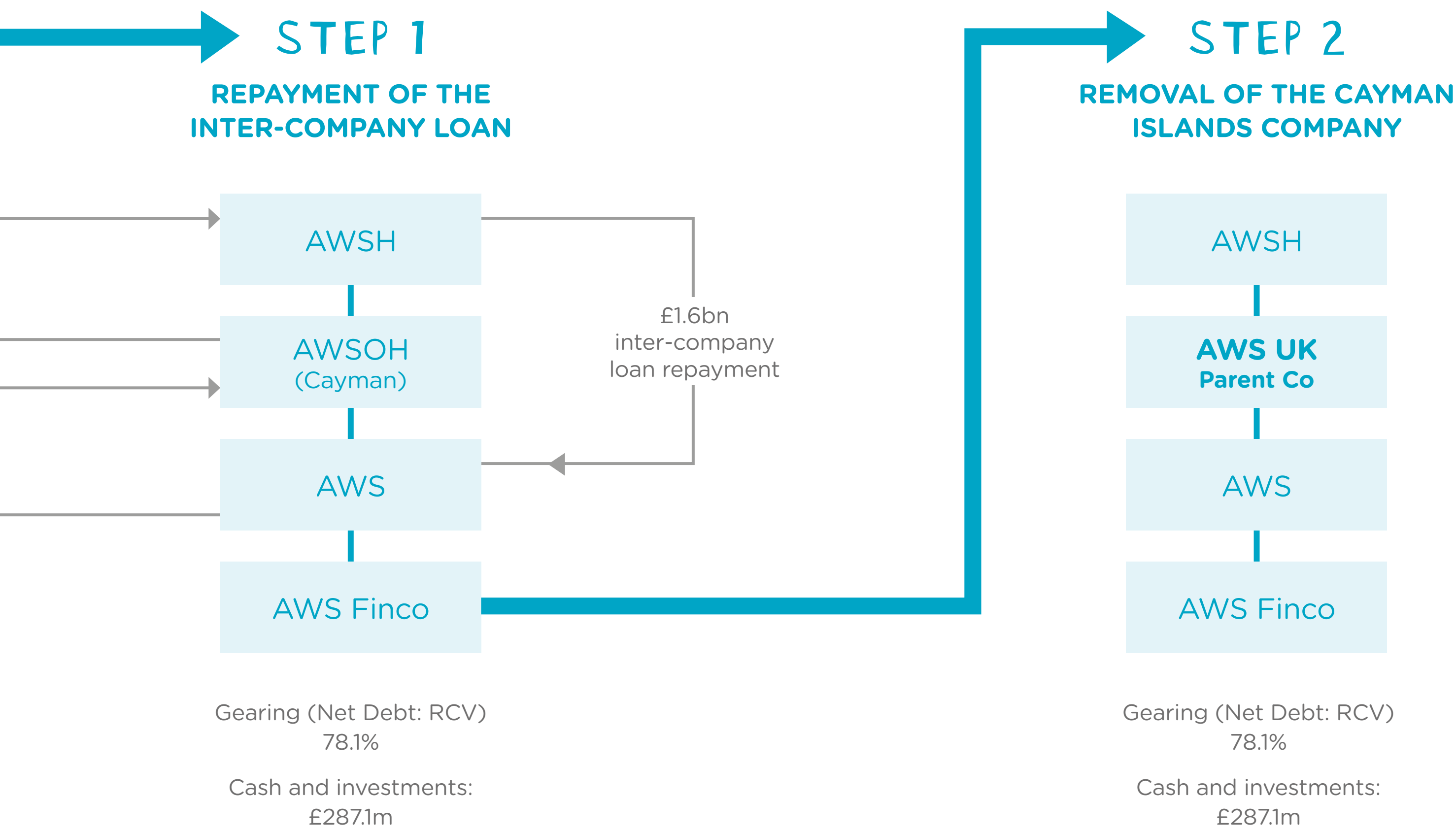
Action taken: As the two holding company structure has advantages for our lenders and customers, the simplest and most effective way of removing our Cayman Islands company was to replace it with a UK company. This has now been accomplished by the insertion of AWS UK Parent Co into the AWS Financing Group, and the transfer of AWSOH out of the group. AWSOH will be liquidated later this financial year.

There was no financial impact to AWS as a consequence of the removal of the Cayman Islands company, and no change to the cash balances or financial strength of the AWS Financing Group.

The structure charts below show the AWS Financing Group before and after the restructuring transaction. The companies included in the charts are: Anglian Water Services Holdings Limited (AWSH), Anglian Water Overseas Holdings Limited (AWSOH), Anglian Water Services Limited (AWS), and Anglian Water Services Financing Plc (AWS Finco). With the exception of AWSOH, all companies are UK registered.

The Cayman Islands intermediate holding company has been removed and replaced by a UK intermediate holding company, and an inter-company loan has been repaid. There is no change in cash or debt of the group, and no dividends paid out of the group. None of the dividends referred to above were paid to shareholders, and the funds were returned to the water company.

There is more information about the restructure on pages 39 (Fair charges, fair returns), 102 (Corporate governance arrangements resulting from securitisation) and 91–95 (Financial performance).



OUR PEOPLE: HEALTHIER, HAPPIER AND SAFER

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

To meet this outcome...

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

Performance highlights

- Launched our new three-year health, safety and wellbeing plan
- Named best UK-based company to work for in Glassdoor's Best Places to Work list for 2018
- Launched a new, more flexible and personalised employee benefits scheme

Employees enjoying a LIFE event in Peterborough.

An organisation is only as good as its people. We are committed to looking after our employees' safety, and also believe that work should have a positive impact on their health and wellbeing. People work better and provide a better service to customers if they are happier, healthier and safer.

This year saw the launch of our new three-year health, safety and wellbeing plan, which has been developed in consultation with people from across the business and with outside organisations, including the Health and Safety Executive and Water UK, to make sure it is current and relevant.

The plan has five key outcomes:

- Healthier and safer work environment.
- Health and safety improved through positive engagement and collaboration.
- High-risk activities managed to reduce significant incidents.
- Hazardous processes understood and controlled.
- Clear and simple safety information.

Underpinning our approach is a behaviour change programme: LIFE. This is about moving away from a traditional, compliance-based approach to health and safety – where we took the measures that the rules said we should – towards a culture where we take responsibility for our wellbeing and that of our colleagues.

LIFE is the brand that brings healthier, happier and safer together, encompassing mental and physical health, wellbeing and safety.

Recent months have seen initiatives on mental wellbeing and musculoskeletal health, while LIFE sessions have been held to improve safety by building the strong relationships and encouraging the positive conversations that support a culture of care and concern where people make the right choices.

To date, in Anglian Water alone, more than 50 senior managers, more than 400 front-line managers and 300 volunteers have attended LIFE sessions. More than 2,500 personnel in our alliances have also attended workshops to help create a safer and healthier working environment. We work closely with our alliance partners to ensure a consistent approach to health and safety.

This work to transform the way we approach employee wellbeing was recognised in February, when our Chief Executive, Peter Simpson, was named Wellbeing Visionary at the inaugural REBA Employee Wellbeing Awards. The awards are organised by the Reward & Employee Benefits Association, with the Employee Wellbeing Visionary Award given to leaders who are working to improve employee wellbeing within UK organisations.

STAYING SAFE

Good health and safety performance, and the health and safety of everyone who works for us or is affected by our activities, is critical to the ongoing success of our business. Our business plans include health and safety objectives and measurable targets that we are committed to meeting and exceeding through continuous improvement.

Our Health and Safety Charter was updated this year. It states:

- Nothing is so important that we cannot take the time to do it safely.
- We will never knowingly walk past an unsafe or unhealthy act or condition.
- We believe that work should have a positive effect on health and wellbeing and that all accidents or harm are preventable.

We continue to focus on high-risk activities, with working groups looking at: working at height; excavations; service detection and protection; toxic gases; and construction activities, including planning and design. We have continued to represent the water industry on national forums for process safety and have hosted workshops for other water companies.

This year also saw us begin work on a health and safety app to give us better visibility of our performance. The first phase will be accident reporting and is due to be rolled out later in 2018.

SETTING THE STANDARD

Twice a year we open ourselves up for detailed, external audit by specialists from Lloyds Register Quality Assurance and, as a result, we have maintained OHSAS 18001 accreditation for our health and safety system since 2009. We are now aiming to become one of the first water companies to achieve the new ISO 45001 Health and Safety standard, which is due to replace OHSAS 18001 in 2018.

For the 14th consecutive year, our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RoSPA). This year we are delighted to have been awarded a Gold medal, which places our health and safety performance among the very best in the industry.

SAFETY IN NUMBERS

Our accident frequency rate (AFR) – the number of reportable accidents for every 100,000 hours worked – continues to be ahead of target, at 0.12.

While this is good news, it does not give the full picture, and we have continued to focus on the number of Category 1 events. These are accidents or very serious near misses that resulted, or could have resulted, in death or serious injury.

The number of Category 1 events was 10, compared to three last year. These included two accidents involving members of the public, with the remainder equally split between employees of Anglian Water and those of our contractors and partners. These were predominately broken or fractured bones in feet and ankles, with the immediate causes largely slips, trips and falls.

Focusing on these incidents gives us a much clearer and more accurate picture of our safety performance. It has also allowed us to target areas of concern and high-risk activities to prevent injuries.

Our time lost to sick absence was an average of 4.61 days per employee, slightly up on last year but still among the best in the industry. Reasons for this include the provision of a medical scheme for all employees, alongside a range of other services available through our Employee Assistance Programme. There is also close working between our HR and Occupational Health teams to support employees returning to the workplace.

MEASURE AND TARGET	2015/16	2016/17	2017/18
Category 1 events[1]	5	3	**10**
Category 1 events *- RIDDOR reportable specified injury accidents* *- RIDDOR reportable non-worker/member of the public accidents* *- RIDDOR reportable (potentially life-limiting) occupational diseases* *- Fatalities*			
Accident frequency rate (AFR) – 0.14	0.11	0.12	**0.12**
The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors.			
Sick absence – 4.5 days	4.26	4.39	**4.61**
The average number of working days lost per employee due to sickness.			

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

A GREAT PLACE TO WORK

Our company and its successes are built on the efforts of our people. We are determined to be an employer of choice in our region, with a workforce that reflects the diverse nature of the communities we serve.

In December, we were named the best UK-based company to work for in Glassdoor's list of Best Places to Work 2018. Our Company was second overall in the prestigious awards, beaten only by US global tech giant Google.

Glassdoor is one of the fastest-growing job and recruiting websites and allows employees to anonymously review companies and their management. Our employees championed us as a great company to work for, awarding us an exceptional score of 4.4 out of 5. An impressive 89 per cent said they would recommend working at Anglian Water to a friend.

The announcement came only months after our Chief Executive, Peter Simpson, was named Best CEO in Glassdoor's ratings, with a 98 per cent approval rating from those who left a review.

Our own Love to Listen survey of our employees and alliance partners found that 82 per cent of respondents were proud to work for or with Anglian Water. It also found that 72 per cent felt people were treated equally and fairly, regardless of gender, age, race, disability, religion or sexual orientation. We want that figure to be 100 per cent, and continue to build an environment where difference is valued and where all colleagues can give their best.

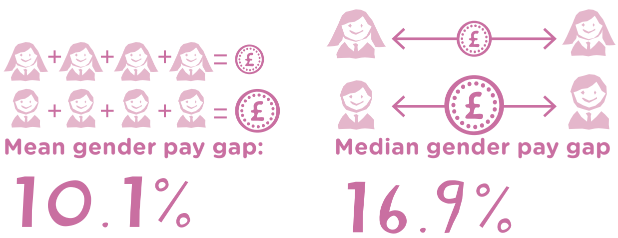
Employees celebrate Anglian Water being named Glassdoor's best UK-based place to work.


Students having fun at an event for Women in Engineering Day.

As part of this, we have refreshed our Diversity and Inclusion Policy and created partnerships with key groups, including Stonewall, Disability Confident, and with the Business Disability Forum. We supported International Day against Homophobia, Transphobia and Biphobia, raising the Pride flag at our main offices in Huntingdon, Peterborough and Lincoln. Together with our partners, we provide support and guidance for employees and have online training available for workplace equality, learning difficulty and disability awareness.

GENDER DIVERSITY

The law requires any company with more than 250 employees to publish its gender pay gap. Anglian Water's gender pay gap on 5 April 2017 was as follows:



This compares with a national mean pay gap of 17 per cent and a median figure of 18 per cent. This is the average difference between the pay of men and women working for an organisation. It is not the same as equal pay. The law says men and women must be paid the same for doing equivalent work. If they are not, then their employer must justify why not. We pay men and women the same rates for performing the same roles.

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

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

The number of women in STEM and operational management roles has increased by 66 in the last year, with the total gender split across the Company now 32 per cent women and 68 per cent men. Our talent pool – people identified as potential successors to more senior roles – is now 46 per cent female, and we have continued to promote flexibility, with the number of men in part-time roles increasing by more than 80 per cent since 2014. Currently, 25 per cent of our Executive Directors are women, and female Directors represent 17 per cent of the Anglian Water Services Board. The subsequent addition of Independent Non-Executive Director Natalie Ceeney, as of 14 May 2018, increases this percentage further.

Students visited our Central Science Laboratories for Women and Girls in Science Day.

We support Women in Engineering Day, holding events and this year posting testimonials from our female engineers to our Facebook site to encourage more women to follow in their footsteps. We invited a group of female students into our laboratories for Women and Girls in Science Day in February. In the past year, we have seen 9,638 girls in local schools and at a range of different events.

NURTURING THE NEXT GENERATION

In addition, we remain at the heart of two education initiatives to develop the technical skills of 14 to 19-year-olds and provide opportunity for employment to the next generation.

We are the lead sponsor of the Greater Peterborough University Technical College, which opened in September 2016 and aims to provide a world-class technical education with an emphasis on sustainable engineering and construction.

Anglian Water and its civil engineering alliance partners are also sponsoring two BTEC courses at the College of West Anglia in Wisbech. Our alliance partners have employed 12 apprentices who graduated from the college this year. We also opened the Wisbech Technical Training and Development Centre, specialising in engineering. These activities will help us to find the skilled employees of the future. We continue to take people into our graduate and apprenticeship programmes, and are now offering paid summer internships.

REWARDING OUR PEOPLE AND GROWING CAREERS

We work with a number of professional bodies to ensure that continuing professional development is embedded in our organisation. This is exemplified by our work with the Institute of Water, with whom we have many employees chartered as scientists and environmentalists, and by the professional development programmes in place with the Chartered Institution of Water and Environmental Management (CIWEM), the Institution of Mechanical Engineers (IMechE) and the Institution of Engineering and Technology (IET).

The Transforming Our Leadership programme has given 300 senior managers and more than 600 front-line managers the opportunity to focus on the leadership capability needed to build high-performing teams.

We continually enhance what we offer our workforce and in February we launched Boost Benefits, which allows employees to create a personalised reward package based on choice and flexibility that works for them at different stages of life.

Anglian Water civil engineer Stuart Jones with engineering apprentice Nick Lincoln at Greater Peterborough University Technical College.

AN ETHICAL BUSINESS

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

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

We have policies in place that address the risk of bribery and failure to prevent criminal facilitation of tax evasion. In addition, we have policies that set out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality as well as political and charitable donations. We also have a whistleblowing policy in place (see page 111 for further information).

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

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

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

Installation of a mural at Wisbech Training and Development Centre, College of West Anglia (6 March 2018), with Jeff Ray, Restoration Technical Training Development Manager; Diane Chamberlain, Training Development Business Partner; and Graham Caldicott, Network Technical Training Development Manager.

PENSIONS

This year saw us make a number of changes to our pension arrangements.

The Anglian Water Group Pension Scheme (AWGPS) defined benefit sections have been closed to new entrants since 2002, when a new defined contribution section was introduced. In March 2017, the defined benefit Hartlepool Water Section of the Water Companies Pension Scheme was transferred into the AWGPS as a new segregated section. Around 25 per cent of our current employees were active members of the AWGPS defined benefit sections, still building up pensionable service with over 70 per cent of employees in the defined contribution section.

A three-year actuarial valuation of the defined benefit sections was required with effect from 31 March 2017 and as a result of lower interest rates and other assumptions used in the valuation process, the defined benefit employer future service contributions were estimated to more than double.

Following more than a year of engagement and consultation with employees and trade unions, the decision was taken to close all sections of the AWGPS to future accrual. A new defined contribution Master Trust pension scheme with Legal & General was introduced, effective from 1 April 2018, for all our employees. As part of the consultation, we improved he maximum employer contribution to the new defined contribution pension and introduced greater choice through a package of benefits that aimed to ensure all our colleagues have the flexibility to choose their contribution levels and their access to other benefits such as healthcare, depending on their personal circumstances.

After taking QC legal advice and discussion with the Company, the agreement to close the AWGPS to future accrual for existing defined benefit and defined contribution members was signed with the Trustees in February 2018. The benefits already accrued in the schemes have been protected and the Company has agreed deficit contribution levels with the Trustees that will ensure the AWGPS continues to be funded at an appropriate level.

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

SMART COMMUNITIES

POSITIVE IMPACT ON COMMUNITIES

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

To meet this outcome...

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

Performance highlights

- Named Responsible Business of the Year
- Developed a Community Ambassador programme
- Launched a new Customer Board

COMMUNITY PERCEPTION

Based on a survey of community perception.

PERCENTAGE OF SATISFIED HOUSEHOLDS

TARGET (FOR 2019/20) 60%

ACTUAL 55%

COMMUNITY PERCEPTION

We are determined to make a positive difference to the region and communities we serve, and have decided to measure our performance through a Community Perception ODI. In 2017/18, a survey of customers found that 55 per cent of those asked agreed that we care about the communities we serve. This is a rise from 52 per cent in 2016/2017 and we have committed to increase the figure to 60 per cent by 2019/20.

RESPONSIBLE BUSINESS OF THE YEAR

For many years we have been active in the Prince of Wales's Responsible Business Network, Business in the Community (BITC).

Each year BITC celebrates leadership in responsible business and last July we were honoured to be given the title of Responsible Business of the Year for our work embedding sustainability throughout our Company and working across different sectors to tackle shared problems. We believe sustainability is about making responsible, long-term decisions for the future of our customers, our environment, our employees and our business.

The title is also a responsibility in its own right, and comes with an expectation that we will work with BITC to leave the nation in a better position after our 12 months in the role.

We believe our collaborative approach to tackling the problems of pressure on water resources, deprived communities and the need for increasing innovation can be adapted and used by businesses all over the UK. We produced three guidebooks to share our experiences, which were published as part of BITC's Responsible Business Week in April 2018. We are already working with a number of companies and locations as a result. The three collaborations featured in these guides form the case studies at the start of this report (pages 10 to 15).

Producing these guides was not our only commitment. We also wanted to promote this collaborative approach in a variety of ways.

Our Chief Executive, Peter Simpson, chairs the BITC Workwell Leadership Team and was keen to bring together big businesses and SMEs who understand the benefits of managing wellbeing in a positive way. In December 2017, our first Business and Wellbeing Conference was held to share knowledge and create a network of support for business in the east of England. We are now talking to a number of major companies who would like to hold similar events in other parts of the country.

We have taken a similar approach to understanding how the ongoing digital revolution in different sectors can be brought together to help meet the challenges we face around climate change, resilience and resource efficiency. We have worked with two of our digital alliance partners – Atos and Capgemini – to deliver interactive workshops on this theme. These events are helping to deliver the work of the Water Taskforce, and outputs from them are being developed into practical actions that will be piloted in urban, rural and smart growth locations.

LOVE EVERY DROP

Our sustainability strategy, Love Every Drop, is about getting everyone to think about and value water – to put it at the heart of a whole new way of living.

Alongside our education programme, we attended a large number of events around our region this year, including the Norwich Science Festival. But we want to get even closer to our customers, and this year saw the development of our Community Ambassador programme.

CUSTOMER ENGAGEMENT

We have continued with our customer engagement strategy, as we prepare our business plan for the next price review in 2019. The strategy was co-created with customers to ensure we engage with them in ways and at times that are most relevant to them.

Our Community Ambassador programme is the latest initiative in a year that has already seen us reach tens of thousands of customers through holding events like our H2OMG! festival of water in Norwich, by visiting others in our specially adapted double-decker bus, and through the pop-up shop we opened in Newmarket High Street before Christmas.

We have so far trained 50 volunteers from across the Company as Community Ambassadors, to go out and talk to customers at their local community groups. They are able to discuss the key issues affecting water and to gather customers' opinions. Together with our online customer community and our new Customer Board, the programme allows us to put customers' views at the heart of our thinking.

Formed this year, the Customer Board will improve decision making and enhance customer influence within the Company. To our knowledge, no other company has such a structure within their internal decision-making process and we are working to fully integrate it into our corporate governance process. The Board is made up of eight customers, drawn from across our region. Two Anglian Water colleagues will support them as Board Secretary and as technical support.

WALKING THE WALK

To continue developing successful collaborations and engaging customers, we have to demonstrate that sustainability is at the core of our business. We have continued to drive improvements across the Company, including the development of a new, sustainable procurement initiative to ensure responsible decision-making in our supply chain.

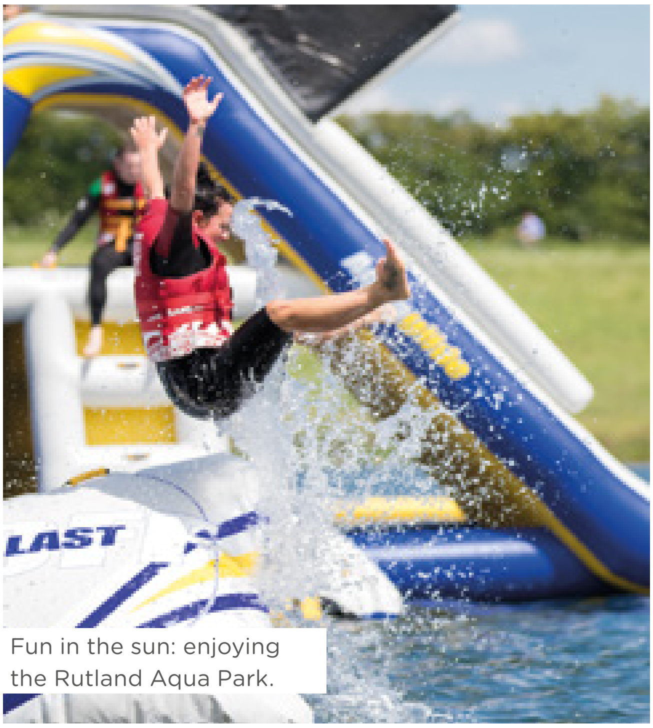
We have also created a new sustainable transport initiative, combining our successful Liftshare scheme with a new cycle to work offer, a wider range of alternative fuel vehicles on the fleet, and the installation of electrical charging points, which will start in 2018. We launched our first Green Bond (see page 40) and are looking at other ways of working on innovative financing. Our employee volunteering programme has also been reviewed to make it as accessible as possible for all our staff.

Along with more than 200 other businesses, Anglian Water is a member of the London Benchmarking Group – an evaluation framework for measuring and understanding the value of our contribution to local communities. Using this framework, we have worked to measure the impact different teams and programmes around the business are having in the local community and the environment.

Our Community Education team saw 28,137 children and adults between April 2017 and March 2018 – in lessons and at educational shows and talks. This takes the total number of people seen since the team was formed in 2007 to 397,274.

The evaluation framework also helps us understand how volunteering in local communities positively affects our communities, our environment and our employees. We found that 94 per cent of employees who got involved felt they made a difference to their local community, while all reported an increased sense of wellbeing.

Employees also benefited by volunteering for WaterAid. Last year, the volunteer WaterAid Committee raised more than £900,000, with £552,000 coming from their annual WaterAid Ball.



Fun in the sun: enjoying the Rutland Aqua Park.

Our RiverCare and BeachCare programmes, managed in partnership with Keep Britain Tidy, support 45 community volunteer groups to improve their local river or beach environment. We found 97 per cent of those volunteers felt an increased sense of community, 86 per cent felt there was less litter in the area, and 93 per cent felt more aware of the importance of protecting and taking care of their local watercourse.

For the last four years, Anglian Water and our partners have contributed to various projects under way in Wisbech. We have worked in collaboration with the local community to identify and confront some of the biggest challenges facing the town. Using the evaluation framework, we found 137 members of the community felt a positive impact on their quality of life during 2017.

WATER PARKS, FOR PEOPLE AND WILDLIFE

More than two million people a year visit our water parks, which offer the chance to spend time outdoors in a variety of pursuits – from fishing and sailing to walking, cycling, wildlife watching and more.

Our parks cover more than 4,428 hectares of parkland, woodland, nature reserves and water, most of it around our reservoirs at Rutland, Grafham, Alton, Pitsford, Ravensthorpe and Hollowell, and at Taverham Mill outside Norwich. They conserve and enhance our region's natural riches and help us make a positive difference to the communities we serve.

We have led the way in providing safe access to reservoirs for swimming. The UK's largest inland beach opens at Rutland between July and August each year, while the giant inflatable Aqua Park is a huge draw in the summer months. It is one of the largest floating obstacle courses in the UK and will be a fixture at Rutland for the next 10 years. Grafham, Alton and Pitsford Water host numerous triathlons and swim events throughout the year.

This year we teamed up with British Triathlon and the Royal Lifesaving Society UK to become the first SH2OUT accredited venue in the UK. SH2OUT is an exciting programme that has been developed to promote open-water swimming and safety within the sport.

Rutland Water retained accreditation through Visit England's Visitor Attraction Quality Assurance Scheme (VAQAS). Grafham Water has also applied for accreditation and we will learn if it has been successful in 2018. All our parks have retained Green Flag status, which recognises and rewards well-managed parks and green spaces, providing the benchmark standard in the UK and around the world.

We have been building an 88-pitch campsite on the shores of Alton Water in Suffolk, which will open this summer, along with Alton Water's own Aqua Park too. We have also taken on the management of the cycle hire centre and tearooms at Alton, to ensure our customers get a great experience.

This year saw the launch of a dedicated park website, **www.anglianwaterparks.co.uk**.

Our water parks also play an important role as centres for volunteering. The invaluable work taken on by the volunteers includes keeping sites well maintained, running events and carrying out conservation work.

SAFE, CLEAN WATER

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

To meet this outcome...

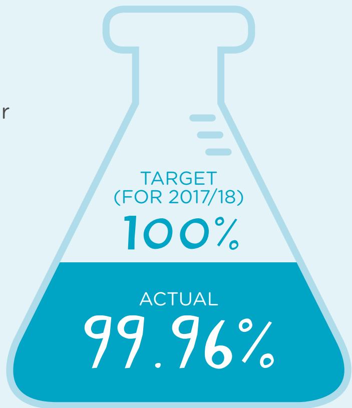
We must mitigate threats to water quality generated by environmental pressures and climate change.

Performance highlights

- Big fall in customer contacts about the appearance, taste and odour of their water to a new record low
- Mean Zonal Compliance at 99.96%
- Successfully used a catchment management approach to return a Lincolnshire water treatment works to supply

MEAN ZONAL COMPLIANCE

This is a measure of compliance with water quality parameters.



WATER QUALITY CONTACTS

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

TARGET
(FOR 2017/18)
1.23

ACTUAL
1.23

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

OUR SUPPLY SITES

The Drinking Water Inspectorate (DWI) measures performance at our treatment works, where we have delivered another excellent performance with just four coliform failures. The same is true of our storage reservoirs, which store treated water at points around the network and where we achieved 99.99 per cent compliance this year.

Both results are due to a successful programme of work to improve the inspection process of treated water tanks and storage reservoirs. We have adopted a risk-based approach to the frequency of these inspections and, as a result, we continue to be among the highest-performing water and sewerage companies (WaSCs) in the industry for the DWI measures of Disinfection Control and Reservoir Integrity.

In 2017, the DWI audited our water treatment works at Barrow in Lincolnshire as part of a wider industry audit of resilience. This was satisfactory, with the Inspectorate impressed with what they saw.

OUR NETWORK

In addition to maintaining excellence at our water treatment works, we have once again exceeded our target for the quality of water travelling through our network to homes and businesses.

Mean Zonal Compliance (MZC) is the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales. It is one of our ODIs, with a target for this year of 100 per cent. This year we achieved 99.96 per cent.

In 2017, the DWI introduced a new measure called the Compliance Risk Index (CRI). This is set to replace MZC as our ODI from 2019. CRI has four components: Treatment, Reservoir, Supply Points and Zones.

WATER QUALITY CONTACTS

We have seen a big fall this year in the number of contacts we receive from customers about the taste, odour and appearance of their water.

This is one of our ODIs and last year saw us achieve a record low of 1.38 per thousand people for the second year running. This year we faced the challenge of reducing numbers even further, to meet a significantly tougher target of just 1.23 contacts per thousand customers. We hit our target, thanks to a continued focus on supporting customers through social media and reacting to every cluster of two or more complaints in order to solve any issues quickly.

LEAD REPLACEMENT

Our planned lead communication pipe replacement programme has continued, replacing old lead pipes with new plastic ones to help reduce levels of lead in drinking water for our customers. Work has again focused on Bedford and Norwich, two of our highest priority areas for lead.

There are still places in our region where lead pipes are relatively common due to the high number of older homes. Communication pipes join our water mains network to customers' private pipes. In the last year we replaced 980 as part of the programme. In addition, we replaced another 280 – as part of our mains replacement programme, in response to sample results or as part of a free, new connection to the water main for customers who replace the lead pipes on their property. Including properties on shared supplies, this work benefited over 1,400 properties.

We have also conducted a trial in Norwich to understand the challenges customers face in replacing their lead pipework, including providing a contribution towards the cost to encourage uptake.

We continue to protect water quality in public buildings, working with councils to collect lead samples from local authority-owned sites, inspect water fittings and test for lead.

The main source of lead in drinking water remains the pipes that connect kitchen taps to the water mains, in properties built before 1970. We work to educate customers, providing information to health professionals and promoting our message to our target audiences, primarily families with young children.

Last year over 18,500 leaflets were distributed to midwives, GP surgeries, children's centres and nurseries. Our information video is played on a loop on NowBaby – a TV channel running in waiting rooms in antenatal clinics in hospitals. We also attended many events this year, promoting our free lead test, advice line and ways to reduce levels of lead in drinking water.

Short of replacing pipes, the best way to control lead levels in drinking water is to add a small amount of orthophosphoric acid. This forms a coating inside the pipe to stop lead dissolving into the water. We have been investing in new equipment at our water treatment works so that we can continue to do this, and working to optimise the process across our region. This work has been hugely successful in reducing the number of lead sample failures at customer taps.

PROTECTING WATER QUALITY AT SOURCE

Growing populations, agriculture, industry and tourism all place pressure on the quality of our water sources. Catchment management offers a coordinated approach to protecting the quality of water in rivers, reservoirs and aquifers, by tackling pollution at source and in partnership with those that own and use the land.

By stopping substances like pesticides from getting into water in the first place, we can remove the need for expensive treatment, which also helps to control our energy use, carbon emissions and costs, and is good news for wildlife and for recreation.

Improving the quality of this raw water also makes it easier to move from areas of plenty to those of water scarcity, increasing the resilience of public water supplies and supporting housing development and growth.

BOOTS ON THE GROUND

Anglian Water is taking a leading approach to catchment management through its team of catchment advisors.

We have continued our Slug it Out trials with farmers surrounding some of our key reservoirs, to reduce the amount of metaldehyde from slug pellets entering the water. At the same time, we are funding research into the length of time metaldehyde persists in the environment and any ongoing effects on water quality.

Metaldehyde is particularly difficult to remove during water treatment, but it is far from the only chemical used on farms. Accidental spills of these chemicals when filling farm equipment are believed to be the source of up to 70 per cent of the pesticides seen in raw waters.

To address this, we have been providing farmers with tough, portable drip trays. These are designed with a spout, which allows any spilled chemicals to be easily returned to the sprayer or the container they came in.

Other initiatives this year have included:

- Supporting farmers in trialling different ways to reduce the loss of pesticides and nitrates from their land.
- Working with agricultural students to teach them about water quality and how to protect it.
- Running pesticide amnesties, where we anonymously collect and safely dispose of unused or no longer licensed chemicals.
- Sharing our data and models of high-risk land with agriculture, outdoor meat producers and others.

WINTERTON HOLMES

Chemical spills are an example of point source pollution, which can be traced to a single point.

In 2012, four boreholes at Winterton Holmes, North Lincolnshire, had to be taken out of use when two pesticides – clopyralid and bentazone – were found in routine samples. Investigations uncovered the likely source was a single farmyard spill. While levels are now well below the level required by the drinking water standard, the risk of future spills meant the boreholes remained out of service.

At first it was proposed that a 10km pipeline be built, linking the local area to Elsham Water Treatment Works. However, this would have cost around £5 million, so instead a catchment management approach was adopted. Farmers in the area were made aware of the problem and worked with Anglian Water to improve their handling of pesticides.

We improved facilities at seven farmyards around the borehole site. This included improving wash-down facilities and installing biobeds: on-site treatment plots that use a mix of compost, soil and straw to remove pesticides spilled or washed off farmyards.

This work allowed the boreholes at Winterton Holmes to be returned to supply at a fraction of the cost of laying a new pipeline.

We are also working with the University of Lincoln to provide a demonstration site where other farmers can come and see ways of containing pesticides. These include biobeds and a system called Heliosec, which allows liquid chemicals to evaporate before any solids left behind are safely removed.

DELIGHTED CUSTOMERS

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

To meet this outcome...

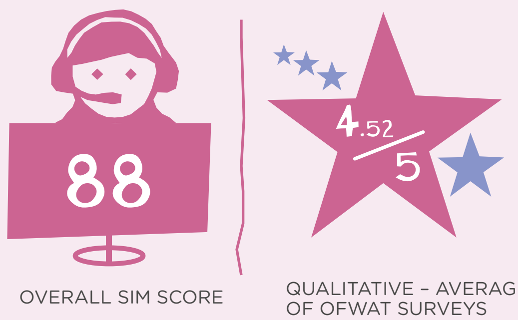
We must address challenges associated with changing customer expectations.

Performance highlights

- Finished the year with the top spot in Ofwat's qualitative SIM survey
- Launched a new online account management site for customers
- Extended our call centre opening hours

SERVICE INCENTIVE MECHANISM (SIM)

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



AN INDIVIDUAL SERVICE

Our customer service is constantly evolving to keep pace with people's changing needs and rising expectations. Teams are empowered to deliver a tailored service to customers depending on their individual circumstances.

To help them, more than 500 Anglian Water employees became dementia friends this year, as part of the Alzheimer's Society's drive to change the way the nation thinks, acts and talks about the condition.

Our staff learned more about dementia and the ways in which they can help those living with the symptoms. Our care centre teams also undertook training with the Samaritans.

This year saw the launch of our new online account management site, My Account. Customers can use the portal to view their bills and usage online, make payments, set up direct debits and submit meter readings, among other things. Within three months of its launch, 180,000 people had registered, and feedback has been hugely positive.

We also extended our call centre opening hours into the evenings, Saturday afternoons and Sundays, to make it easier for customers to get in touch at times that are convenient for them.

MEASURING CUSTOMER SATISFACTION

The number of written complaints we receive about our service continued to fall this year, to its lowest ever level, while customers' rating of our service has continued to improve.

This includes the Service Incentive Mechanism (SIM), used by Ofwat to compare the customer service offered by water companies. We finished the year with the top spot in Ofwat's qualitative survey, which is based on ratings from customers who contacted us throughout the year. This is up from sixth place last year. Together with our quantitative performance, which looks at the number of unwanted customer contacts, we have a SIM score of 88 out of 100. We expect to be the top company for customer service in 2017/18 when the final results are released later in 2018.

Our own internal survey of customer satisfaction gathered opinions from over 100,000 people who contacted us with an account query. More than 89 per cent said they were very satisfied with our service, while those that were unhappy have helped us learn from mistakes and improve what we do.

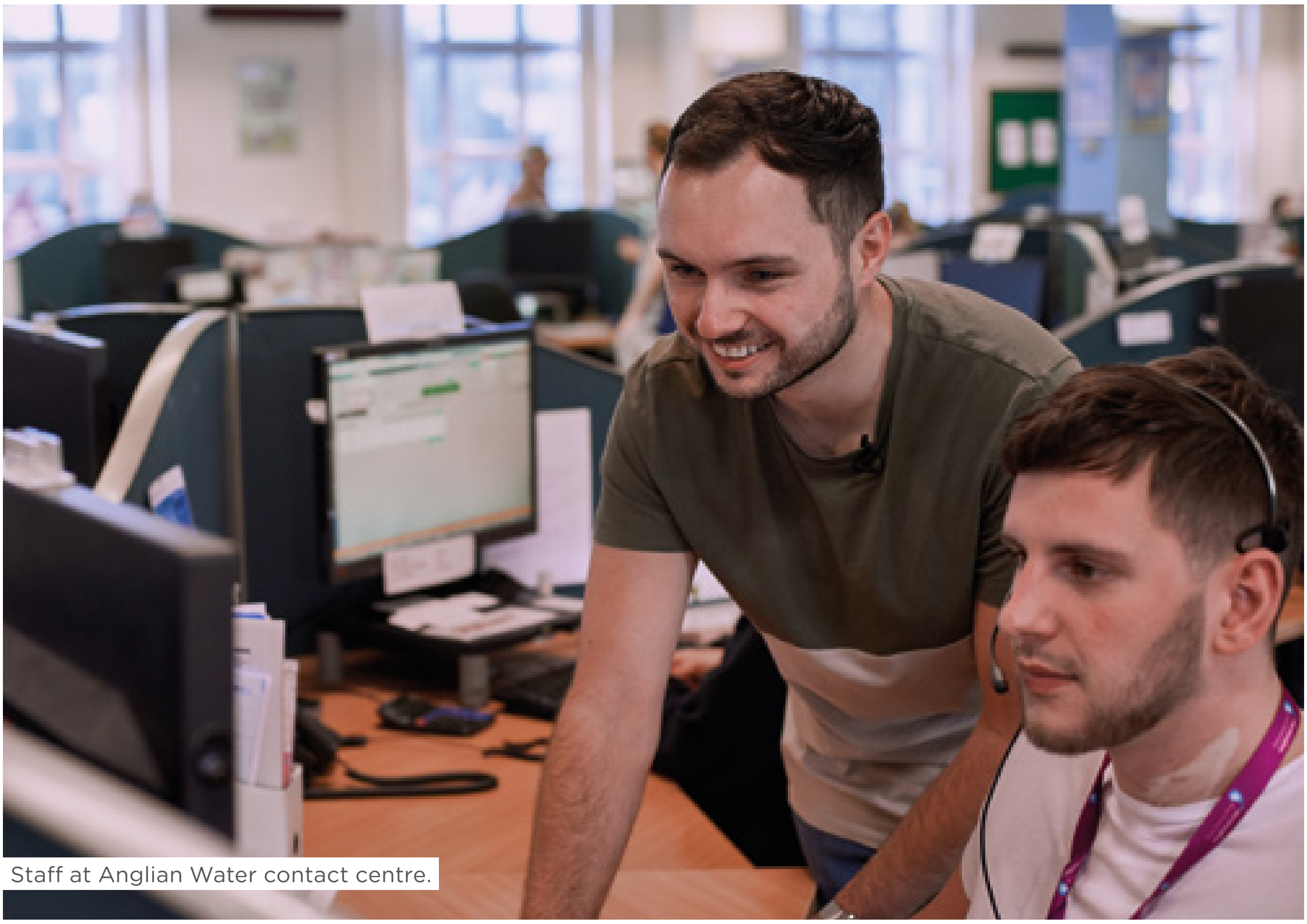
We also measure our performance through our membership of the Institute of Customer Service. Its annual Customer Satisfaction Index (UKCSI) measures people's recent experiences of customer service across 13 different business sectors. We achieved some great scores this year, including our highest ever score of 78.6 in July. Our average score for the year was 77.5, placing us sixth out of the 25 utility companies surveyed in both the July and January surveys.

CONSTANT IMPROVEMENT

We will continue to enhance and develop our digital and automated services in the coming year to ensure customers find their interactions with us effortless and straightforward. This will include offering a 24-hour digital channel seven days a week.

To ensure a fair and inclusive service for all of our customers, we have committed to achieving the British Standard for inclusive service provision – BSI 18477 – during the next year. This sets guidelines to help organisations provide a fair, flexible service that is available all consumers, regardless of their health, age or personal circumstances.

All of our front-line employees will be given training to help them deliver an even better and more personalised service.



Staff at Anglian Water contact centre.

SMART ENVIRONMENT

SUPPLY MEETS DEMAND

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

To meet this outcome...

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

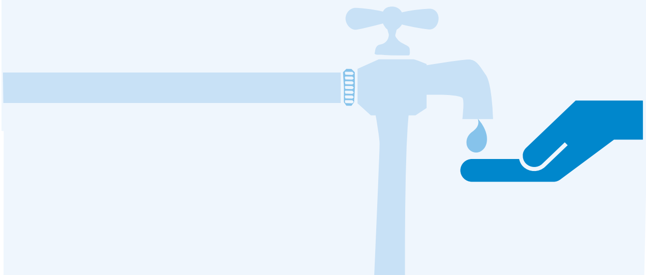
Performance highlights

- Published our draft Water Resource Management Plan
- Held a series of Growth Forums with local authorities
- Launched a guide to show the support available for communities preparing their own Neighbourhood Plans

SECURITY OF SUPPLY INDEX (SOSI)

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

	DRY YEAR ANNUAL AVERAGE	CRITICAL PERIOD (PEAK) DEMAND
TARGET (BY 2019/20)	100	100
ACTUAL	100	100



SINGLE SUPPLY SYSTEM

Percentage of population supplied by a single supply system.

TARGET FOR 2019/20
24.7%

ACTUAL
45.3%

SERVICE LEVEL RESTRICTIONS

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

ACTUAL
ONCE
IN LAST 10 YEARS

TARGET FOR 2019/20
ONCE IN LAST 10 YEARS

Our services play a key role in enabling the growth of our region and we need to meet the increasing demand for water and water recycling that growth brings. We must also take account of the changing climate, be prepared for future droughts and ensure that our environment is protected.

PLANNING FOR THE LONG TERM

Throughout this year we have been preparing our draft Water Resource Management Plan (WRMP), which outlines how we will maintain a sustainable balance between water supplies and demand over the next 25 years. This will need a range of different measures, including more efficient water use in homes and businesses, new sources of water for treatment and supply, and more transfers between areas with surplus resources to areas with deficits.

Our WRMP sets out an ambitious, cost-beneficial demand management strategy to ensure the reliability, sustainability and affordability of water resources over the long term.

We put the plan out for consultation between March and June, asking for feedback on our approach to: growth; demand management; metering; and the scale and timing of investment needed to increase our resilience to the impacts of climate change, drought and environmental regulations.

It is likely that companies will need to make further reductions to the amount of water they abstract from rivers and groundwaters in 2025, to reduce their impact on the environment. However, the size of these reductions is not yet clear, so our WRMP looks at different scenarios to take account of the uncertainty. In the worst case, we may need a new winter storage reservoir or other, similarly strategic assets, and our plan gives details of the work we are doing to assess these options.

Alongside the draft WRMP, we have also been preparing our first Water Recycling Long-Term Plan. This will improve our understanding of what is needed to protect this vital service from the risks of climate change, severe flooding and strategic growth. The work has been well received by the Environment Agency (EA) and by local authorities. We will now be consulting on the document to make sure it meets the needs of our partners.

PROTECTING SUPPLIES; SAFEGUARDING THE ENVIRONMENT

We continue to improve the resilience of supplies to ensure the majority of people can be supplied from more than one source. Our ODI target is to reduce the number of customers with a single source of supply from 46.9 per cent to 24.7 per cent between 2015 and 2020. We are currently at 45.3 per cent and making good progress.

Together with the EA, we have been looking at what further investment will be needed to restore abstraction to sustainable levels and to prevent deterioration in water body status. Delivery of both the sustainable abstraction schemes and those under the Eels Regulations are covered by our Water Environmental Compliance ODI.

DEALING WITH DROUGHT

Our region is one of the driest in the country and experiences periodic episodes of drought. We maintain supplies thanks to resilience schemes put in place after previous droughts and, where needed, the use of temporary restrictions.

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

This commitment on hosepipe bans is one of three planned levels of service that form the basis of our Security of Supply Index (SoSI). This is used to identify any risk of water shortage within Anglian Water's supply area and is expressed as a score out of 100 for the average day in a dry year, and for periods of peak demand. The supply area is divided into resource zones, and a shortage in any one of these zones would result in a score of less than 100.

SUPPORTING SUSTAINABLE GROWTH

Our region is already the fastest growing outside of London, with three of the UK's five fastest-growing cities. We have a statutory duty to provide water and water recycling services to new homes and businesses. To better meet this challenge, we have formed a new Strategic Planning team, bringing together legal and planning expertise.

The team has been working with local planning authorities, developers, the EA and others to better understand and influence the timing and scale of growth.

We have held a series of Growth Forums with local authorities to explore new ways of thinking and working together and to facilitate sustainable growth that makes best use of space and finite resources, and creates communities, not just homes.

This has allowed us to move from a traditional 'consult and respond' approach to one where we directly help shape spatial strategy with local authorities and partners.

- We have been working closely with authorities across the Milton Keynes, Oxford and Cambridge Arc to understand how we can help inform their plans. The area is likely to see almost unprecedented growth, with major new garden villages providing one million new houses and 700,000 additional jobs by 2050. By working on these plans at the earliest stage, we can help to ensure these homes are as sustainable as possible and that they use land effectively, to help reduce the risk of surface water and sewer flooding for existing and future customers.
- We are also helping the Greater Lincolnshire Local Enterprise Partnership (LEP) to shape its innovative utilities study, which seeks to create a framework for collaboration between all utilities and growth bodies across Lincolnshire.

We believe it is important that our communities understand the role we play in the housing growth that they see around them. This year we launched a guide, *Neighbourhood Planning and Anglian Water*, to explain what support we can offer communities looking to prepare their own plan.

A FLOURISHING ENVIRONMENT

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

To meet this outcome...

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

Performance highlights

- 99 per cent of our Sites of Special Scientific Interest (SSSIs) in favourable condition, compared to a national average of 38.7 per cent
- Worked with the University of East Anglia to build a register of our region's natural capital
- 31 of our bathing waters classed as excellent
- Carrying out an intensive programme of bathing water sampling with Aberystwyth University

PERCENTAGE OF SSSIs WITH FAVOURABLE STATUS

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

TARGET (BY 2019/20)
>50%

ACTUAL
99%

BATHING WATERS

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

EXCELLENT 31 TARGET 33

GOOD 12

SUFFICIENT 5

POOR 1

BIODIVERSITY

We operate in a beautiful part of the world. From the Wolds of Lincolnshire to the Chilterns and the Norfolk Broads, our region is full of special places that are home to some wonderful plants and animals.

We have legal obligations to protect our region's wildlife and habitats. We also know a healthy and flourishing environment improves people's quality of life and supports a thriving economy.

TAKING STOCK

We own and manage a great deal of land, much of it of value to wildlife. This includes 47 Sites of Special Scientific Interest (SSSIs), covering nearly 3,000 hectares. Of these, 99 per cent are judged to be in favourable condition by Natural England. This compares well with England as a whole, where only 38.7 per cent of SSSIs were in favourable condition at March 2018.

Over the last year we have been working to improve our understanding of the wildlife on our sites and in the wider region, and of the benefits it brings us.

While wildlife and habitats are valuable in their own right, they also provide some obvious and important benefits, including the water we drink, clean air to breathe, soil to grow our crops and insects to pollinate them. This is what we call natural capital.

We asked the University of East Anglia to build a register of our region's natural capital. This ground-breaking approach is helping us – and everyone else – to see where the most important natural assets are and where they face the most pressures. That is invaluable when we are working with local authorities, developers, environmental and community groups, and others.

By better understanding the region's natural capital, we can understand the impact we have on it, our dependence on it, and make better decisions for ourselves, our customers and society that protect and enhance natural capital and reflect its importance to delivering our services.

Closer to home, we have been producing biodiversity scores for each of our operational sites. These scores are based on a metric developed by the Cambridge Institute for Sustainability Leadership's Natural Capital Impact Group, of which we are a member. The detailed understanding this provides should help us better protect biodiversity on our sites, especially when we undertake construction work.

HALTING THE SPREAD

At the same time as working to protect and enhance the native biodiversity of our region, we are also playing a role in protecting it and our operations from the impact of invasive, non-native species. These are plants and animals brought from overseas and that have the ability to spread and cause damage to the environment, economy or society.

Several species impact our operations directly by altering the environment – affecting water quality, creating potential flood risks, and blocking pipes and intakes – which drives up pumping costs, energy use and carbon emissions.

This year work included the removal of floating pennywort from around our intake off the River Ouse to keep it out of Grafham Water. If the plant were to establish itself in the reservoir, the cost of managing it and its impacts on wildlife would be much higher. We also hosted a workshop on invasive species in the Cam and Ely Ouse catchment to aid learning and coordinate action.

HELPING OTHERS

As part of our commitment to protecting and enhancing the species and habitats across the region, our Flourishing Environment Fund makes grants to support projects that directly conserve wetland habitats and species.

Recent awards include a grant for the British Trust for Ornithology, to enhance wetland habitats for species in and along sections of the River Little Ouse, and for the River Lark Catchment Partnership, which will use the funding for bankside wildflower and tree planting to increase biodiversity.

TETNEY BLOW WELLS

One of the SSSI sites we care for is Tetney Blow Wells in Lincolnshire. This fantastic wetland habitat is formed around a series of pools, fed from underground springs that constantly bubble up through the chalk lying beneath the Lincolnshire Wolds.

Water violets grow in the wells themselves, while the marshy ground around them is home to a community of rare wetland plants.

Having previously invested around £200,000 to clear trees that threatened to dry out the site, we must maintain the now thriving wetland. Last October we brought in a Softrak – a specialist piece of machinery able to cut reed in very soft ground conditions with very little impact. Diggers were also bought on site to create four new ponds for amphibians and invertebrates.

BATHING WATERS

Protecting the quality of bathing waters is of huge importance, both to the environment and to the coastal economy. Our Coastal Water Protection team works with councils, the Environment Agency (EA), local businesses and residents' groups to identify and address sources of pollution.

The EA classifies bathing waters against four standards: Excellent (required for Blue Flag awards), Good, Sufficient and Poor. Results are based on a four-year average to make the data more representative.

This year our results were:

EXCELLENT: 31

GOOD: 12

SUFFICIENT: 5

POOR: 1

This is a slight fall from last year, when 32 bathing waters were classed as Excellent.

Clacton Groyne 41 remains the only bathing water in the region to be classed as poor and has a long-running issue with water quality. Recent investigations show the source of bacterial pollution may be a combination of private sewerage systems and roosting birds.

We are working with the EA and the local authority to reduce all potential pollution risks. We know that in the majority of cases declining results have not been as a result of our assets, so our focus is working closely with others to tackle third-party pollution. Nevertheless, we continue to invest where we have seen potential impact from our network.

To better pinpoint potential sources of bacteria in bathing waters, we have been working with the Centre for Research in Environment and Health at Aberystwyth University. It has been running a programme of intensive sampling at all times of day, tidal state and weather.

Where potential sources of bacterial pollution are found, the team then conducts a tracer study, releasing a harmless substance they can track to a bathing water to help establish the impact bacteria from different locations may be having.

So far work has been carried out at 30 of our region's 49 bathing waters, in agreement with the EA and local authorities, to ensure all risks and concerns are addressed. The results will help to shape our investment needs for the price review in 2019, and means any decisions to spend customers' money will be based on solid evidence.

We have expanded the work of our BeachCare programme, which is run in partnership with Keep Britain Tidy. We have introduced two-minute beach cleans at extra locations this year, inviting members of the public to borrow a bag and litter-picker and clear up a stretch of beach for a few minutes. We found that dog mess was a big issue at some beaches, so we are looking at how we can raise this issue and reduce the risk to the public and bathing waters.

BeachCare volunteers at Mersea, Essex.

A SMALLER FOOTPRINT

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

To meet this outcome…

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

Performance highlights

- Launched our new Energy Efficiency and Optimisation framework
- Our Energy Initiative has reduced costs by more than £3 million this year
- On track to meet ODI targets on both capital and operational carbon

CAPITAL CARBON

This is the carbon emitted as a result of construction projects we undertake.

REDUCTION FROM 2010 BASELINE

TARGET (BY 2019/20)

60%

ACTUAL

57%

OPERATIONAL CARBON

This is the carbon emitted as a result of our operational activities.

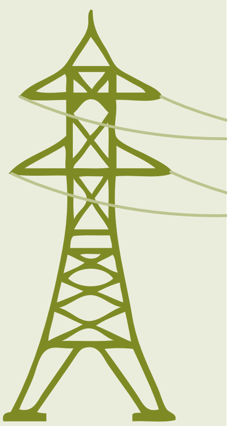
REDUCTION FROM 2015 BASELINE

TARGET (BY 2019/20)

7%

ACTUAL

19.6%



(EXCLUDING EXTERNAL FACTORS SUCH AS DECARBONISATION OF THE GRID, WE WOULD HAVE EXCEEDED OUR TARGET BY 2.2%)

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

In response, we have set ourselves the goal of becoming a carbon neutral business by 2050. Our strategy involves: cutting our carbon emissions; reducing the energy and materials used to maintain our infrastructure; generating our own renewable energy; increasing the efficiency of our equipment; driving out waste; and finding uses for the by-products of our treatment processes in pursuit of a truly circular economy.

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

OUR CARBON REDUCTION GOALS

Not only are carbon emissions strongly linked to a changing climate, they are also an excellent proxy for energy and materials we consume in building and maintaining our infrastructure. Our leading approach in measuring, managing and reducing both operational and capital carbon continues to deliver considerable financial savings and innovation through our Company and our supply chain.

We follow the principles set out by HM Treasury's Infrastructure Carbon Review to release the value of low carbon solutions in how we build and operate. Over the five-year period to 2020, our goals are:

- to exceed a 7 per cent reduction in real terms in gross operational carbon by 2020 from a 2015 baseline
- to deliver a 60 per cent reduction in capital carbon by 2020 from a 2010 baseline.

MEASURING

Annual gross operational carbon emissions have decreased by 19.6 per cent in 2017/18 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO_2e to 366,000 t/CO_2e. The main influencing factors were a significant reduction in grid electricity emissions and a decrease in the volume of fuel oil consumed.

Greenhouse gas emission data has been measured and reported in line with the Department for Food and Rural Affairs (Defra) Environmental Reporting Guidelines published in June 2013. Annual net operational carbon emissions have decreased by 19.8 per cent in 2017/18 in comparison to the 2014/15 baseline, reducing from 446,833 t/CO_2e to 358,284 t/CO_2e.

Our design engineers and capital delivery teams have delivered a 57 per cent reduction in capital carbon against our 2010 baseline, through focus on design, materials used, and installation and commissioning techniques in construction.

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

COLLABORATION IN CARBON AND ENERGY REDUCTION

Managing carbon emissions and costs relies on our ability to constantly monitor and improve the efficiency of our processes and equipment.

Since 2006, our Energy Initiative has delivered year-on-year savings by managing and reducing energy use, reducing emissions and removing unnecessary costs from our water and water recycling operation. Savings in 2017/18 alone exceeded £3 million.

To build on this exceptional performance and to prepare for future efficiency challenges, we have launched a new Energy Efficiency and Optimisation framework.

This framework includes a number of companies who can provide specialist expertise in optimising the performance of our equipment and systems across water and water recycling. Among those involved are: Boultings; Aqua Consulting; Integrated Water Services; Projective; Air Technology; Panks Pumps; and Veolia.

These companies are incentivised to collaborate with us and with each other to save carbon, energy and cost; pooling their expert skills to support our in-house teams as they develop and deliver our ideas and projects.

Our aim is to optimise existing assets through best practice engineering, rather than build new ones. Work includes refurbishing equipment to a higher standard and to improve the way it performs, alone and in conjunction with other assets. Combined with our experience of managing the supply and demand of energy across our systems, this will see us continue to make the savings and efficiencies we need to ensure reliable, affordable services and a sustainable future.

RENEWABLE ENERGY

An increasing amount of renewable energy is generated on our sites. This year 106 GWh of renewable power was produced from biogas, wind and solar. This represents 15 per cent of our electricity use. Of this, we generated 90 GWh using our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. This is a reduction on the 99 GWh generated last year.

Our plans to generate in excess of 30 per cent of the electricity we consume from renewable power by 2020 are progressing primarily through a significant solar programme and optimisation of our CHP fleet.

To increase the CHP engines' efficiency and performance, we have expanded our in-house team of specialist engineers and technicians to take over their running from external contractors.

Another site came on line this year at Chelmsford, where we have refurbished and relocated two disused engines from Pyewipe in Grimsby, saving us about £200,000 on the cost of a single, new engine. The second engine will act as a back-up, increasing resilience on the site.

SUPPLY AND DEMAND

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

We keep a close eye on such outages and on any variances in voltage from the grid, following them up with the distribution network operators. We carefully manage the power we generate and the power we import. This allows us to maximise our income from exporting power and minimise the amount we are charged for importing it during periods of peak demand, when tariffs are much higher than at other times.

This year that demand management has provided a benefit of more than £3.8 million to the Company. The future of some of these benefits is uncertain due to proposed regulatory changes, and we are investigating ways to mitigate the impact these could have.

ZERO WASTE

Central to our goal of becoming a zero waste company is the move to a circular economy approach to reuse and recycling, where we stop seeing materials as waste. We have taken a big step forward by developing a process and pricing regime for selling final effluent to industry and agriculture.

Final effluent is the water we return to the environment from our water recycling centres after treatment. This can instead be sold to retailers supplying farms and businesses that need large amounts of water but do not need it treated to the standard required for drinking. Once the correct quality and regulatory checks have been carried out, it is sent out by pipe or tanker for uses including irrigation and cooling.

Selling final effluent in this way:

- increases water reuse
- improves the resilience of our water resources
- reduces the need for expensive and carbon-intensive water treatment
- offers customers a cheaper, lower carbon water supply.

GETTING A CLEAR PICTURE

We continue to work on improving the quality of the data we collect to get the clearest possible view of what happens to the materials produced as a by-product of our operations. This year data from across the business shows 89 per cent of our waste being put to beneficial use.

In the coming year we will introduce more suppliers and more competition into our waste management process to encourage a more circular approach that considers the potential use and value of all the materials we collect.

DEALING WITH UNCERTAINTY

We face continued uncertainty about the impact of proposed new regulations around emissions and storage of the biosolids produced by our water recycling process. These regulations could have a significant financial impact on our business. In addition, we are expecting a wholesale review of the permitting and control of biowaste, and it is hard to be sure what the impact will be from increased charges and changes to existing regulations.

We continue to work with the Government and regulators to understand the implications, remove uncertainty around future investment, and to ensure the best outcomes for our business and the environment. In the meantime, we have improved our odour management processes and continue to guarantee the highest standards through compliance with the Biosolids Assurance Scheme, which we took the lead in developing on behalf of our industry.

OUTCOME PERFORMANCE TABLE

We measure our performance against 32 commitments, or Outcome Delivery Incentives (ODIs), which appear throughout the Year in Review section of this report. This table lists them all, together with our targets, our 2017/18 performance and a short commentary for each. Full details are given in our Annual Performance Report, which is available on the company website.

ODI	Target	RAG	Comments
Serviceability: Water infrastructure	Green	●	The key measure of how we invest in our below-ground water supply assets to keep their service at an acceptable level. It is split across four measures, each assessed as green, amber or red. With all three measures at green this year, the ODI itself is also assessed as green.
Serviceability: Water non-infrastructure	Green	●	The key measure of how we invest in our above-ground water supply assets to keep their service at an acceptable level. It is split across three measures, each assessed as green, amber or red. With all three measures at green this year, the ODI itself is also assessed as green.
Serviceability: Sewerage infrastructure	Green	●	The key measure of how we invest in our below-ground water recycling infrastructure assets to keep their service at an acceptable level. It is split across four measures, with each one assessed as green, amber or red. With all four measures at green this year, the ODI itself is also assessed as green.
Serviceability: Sewerage non-infrastructure	Green	●	The key measure of how we invest in our above-ground water recycling infrastructure assets to keep their service at an acceptable level. It is split between two measures, both assessed as green, amber or red. With both measures at green this year, the ODI itself is also assessed as green.
Service Incentive Mechanism (SIM) score	N/A	● 88	This measures the level of customer satisfaction with our service out of 100. We expect to be the top company for customer service in 2017/18.
Qualitative SIM score – WaSC rank	Top three	● 1st	The qualitative element of SIM is based on ratings from customers we have contacted throughout the year.
Water supply interruptions	12 minutes by 2017/18	● 7 minutes, 24 seconds	This measures time lost due to water supply interruptions. This year's performance is our best ever, well ahead of the level agreed with our economic regulator, Ofwat.
Leakage – three-year average (megalitres per day)	192Ml/d by 2017/18	● 183Ml/d	The volume of water escaping from our pipes each day. Our performance is industry leading. We have cut leakage by a third since privatisation to record low levels – around half the national average based on the amount of water lost per kilometre of main.
Pollution incidents (Category 3)	298 by 2017/18	● 219	The number of pollution incidents classed as Category 3 by the Environment Agency that are due to escapes from our water recycling network. Performance is ahead of our target.
Percentage of bathing waters attaining excellent status	65% by 2019/20	● 63%	The Environment Agency classifies bathing waters as Excellent (required for Blue Flag awards), Good, Sufficient or Poor. This measures the percentage of bathing waters in our region that attain excellent status. In the majority of cases, declining results have not been as a result of our assets, so we work with others to tackle third-party pollution.
Properties at risk of persistent low pressure	361 by 2017/18	● 297	The number of properties where customers may be affected by persistently low pressure water supplies. We supply 2.2 million properties.
Properties flooded internally from sewers – three-year average (reduction)	448 by 2019/20	● 396	The number of properties flooded internally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.
Properties flooded externally from sewers – three-year average (reduction)	6,159 by 2019/20	● 4,824	The number of properties flooded externally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.
Water quality contacts	1.23 by 2017/18	● 1.23	The number of contacts we receive from customers about the appearance, taste and odour of their water. This is at a record low for the third year running, with this year's total a significant improvement on previous years.

ODI	Target	RAG	Comments
Percentage of sewerage capacity schemes incorporating sustainable solutions	25% by 2019/20	46	We have set ourselves a target to deliver 25 per cent of the sewerage capacity schemes completed in the five years to 2020 using sustainable solutions. We have delivered 21 such schemes so far, including 11 in this financial year.
Customer Satisfaction Index prepared by UK Institute of Customer Service	Upper quartile	6th out of 25	This measures our performance on the annual Customer Satisfaction Index, prepared by the UK Institute of Customer Service. We are ranked against the other utility companies that take part in the survey.
Value for money perception – variation from baseline against WaSCs (water)	0%	+8%	Each year the Consumer Council for Water asks if customers think our water services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Value for money perception – variation from baseline against WaSCs (sewerage)	0%	+5	Each year the Consumer Council for Water asks if customers think our water recycling services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Fairness of bills perception – variation from baseline against WaSCs	0%	+9%	Each year the Consumer Council for Water asks if customers think our bills are fair. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction. This year's performance means we are leading the industry on this measure.
Affordability perception – variation from baseline against WaSCs	0%	+10%	Each year the Consumer Council for Water asks if customers think our bills are affordable. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction. This year's performance means we are leading the industry on this measure.
Mean Zonal Compliance	100% for 2017/18	99.96%	The key measure used by the Drinking Water Inspectorate to determine compliance with the stringent regulatory drinking water standards for England and Wales. Our performance is in line with the industry average.
Percentage of population supplied by single supply system	24.7% by 2019/20	45.3%	We continue to improve the resilience of supplies to ensure the majority of people can be supplied from more than one source. Several schemes are planned for completion over the next few years and we are on course to meet our target for 2020.
Frequency of service level restrictions (hosepipe bans)	Once every 10 years	Once in the last 10 years	We have committed to limit hosepipe bans and other service restrictions to once every 10 years. The last hosepipe ban was in 2012.
Security of Supply Index (SoSI) – dry year annual average	100	100	Measures how well our networks can cope with pressure on water supplies. Used to identify any risk of a water shortage within our supply area and expressed as a score out of 100.
Security of Supply Index (SoSI) –critical period (peak) demand	100	100	Measures how well our networks can cope with pressure on water supplies. Used to identify any risk of a water shortage within our supply area and expressed as a score out of 100.
Per Property Consumption (PPC) reduction from 2014/15 base	305 by 2019/20	316 – with leakage	The average water consumption of the households in our region in litres per household per day. We have to make significant progress in the next two years to reach our 2020 target.
Percentage of SSSIs (by area) with favourable status	>50% by 2019/20	99%	We own and manage a lot of land, including 47 Sites of Special Scientific Interest covering nearly 3,000 hectares. This is the percentage of that area judged to be in favourable condition by Natural England.
Environmental compliance (water)	16 schemes by 2020	4	We plan to complete a number of schemes between 2015 and 2020 to comply with environmental obligations, including the Water Framework Directive, the Eels Regulations and the Restoring Sustainable Abstraction programme. This shows the number of schemes completed so far.
Environmental compliance (sewerage)	81 schemes by 2020	36	We plan to complete a number of schemes between 2015 and 2020 to comply with environmental obligations, including the Urban Wastewater Treatment Directive. This shows the number of schemes completed so far.
Operational carbon (percentage reduction from 2015 baseline)	7% by 2020	19.6%	The carbon emitted as a result of our operational activities.
Capital carbon (percentage reduction from 2010 baseline)	60% by 2020	57%	The carbon emitted as a result of construction projects we undertake.
Survey of community perception	60% by 2019/20	55%	Our survey asks whether people agree that our Company cares about the communities it serves.

CLIMATE-RELATED DISCLOSURES

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) has developed a voluntary framework for the reporting of climate-related financial risk disclosures for use by lenders, insurers, investors and other stakeholders.

Anglian Water is a supporter of TCFD. We are committed to ensuring our climate change disclosures align with TCFD recommendations, which we see as an endorsement of our focused commitment to climate change mitigation and adaptation activities since 2006.

Those activities are an integral part of our strategy and operations, and information relating to climate change can be found throughout this report. Below, we set out how the disclosures in this report align to the TCFD recommendations, where the relevant information can be found and where you can go for more detailed information.

TCFD RECOMMENDATIONS

TCFD FOCUS AREA

GOVERNANCE – the Company's governance around climate-related risks and opportunities

Climate change is one of the biggest risks facing our business and resilience to its effects is a constant theme on the Board's agenda.

As part of the Company's Love Every Drop strategy, the Board has approved ambitious goals to reduce carbon emissions, together with a new long-term target to be carbon neutral by 2050. Our capital and operational carbon performance is reported to the Board each month.

The Director of Water Recycling chairs monthly meetings of the Company's Energy and Carbon Steering Group, while our Director of Asset Management challenges the operational and capital carbon for all capital delivery schemes through the Totex Investment Group. More information on our governance around climate-related risks and opportunities can be found on page 80.

We also report on how we are adapting to the risks and opportunities of climate change in the report we prepare in response to the Government's Adaptation Reporting Power, which can be found on our website, **www.anglianwater.co.uk**.

TCFD FOCUS AREA

STRATEGY – the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

We have a strategy to measure, manage and reduce our carbon emissions, with ambitious goals to reduce capital and operational carbon emissions, and to lead and champion the effective management of the impact of growth and climate change. Details can be found on page 67 and in our annual Greenhouse Gas (GHG) Emissions report, which is available on our website. We have also set out a roadmap to carbon neutrality in 2050, which highlights the key actions we need to take, along with our supply chain and stakeholders, to have a carbon neutral impact in our operations.

Our Strategic Direction Statement highlights adaptation priorities – from immediate flood risks to ensuring future capital investment is designed to be resilient to the impacts of climate change for the next 40 years and beyond.

The CHP plant at Great Billing Water Recycling Centre: our fleet of Combined Heat and Power engines produce renewable energy from the biogas generated at our sludge treatment centres.

Trialling concrete canvas at our Gazeley Water Treatment Works in Suffolk: this is a much quicker and significantly more carbon-efficient method of laying concrete.

TCFD FOCUS AREA

RISK MANAGEMENT – the processes used by the organisation to identify, assess and manage climate-related risks

Following Defra guidance, and in line with the UK Climate Change Risk Assessment and National Adaptation Programme, we developed a methodology for assessing the climate resilience of Anglian Water assets. Risks identified include extremes of temperature, an increase in spells of dry weather, sea level rise and more frequent wind storms. Possible impacts include supply interruptions, flooding, pollution, odour problems, compliance failures and an increase in leaks and burst pipes. More information about our risk management process and our principal risks can be found on pages 74 to 88, with climate change specifically addressed on page 80. For more details, please see chapter 5 of our current Climate Change Adaptation Report, which is available on our website.

TCFD FOCUS AREA

METRICS AND TARGETS – the metrics and targets used to assess and manage relevant climate-related risks and opportunities

Each of our assets is assessed to see if, when and how it is likely to be affected by a changing climate, and what actions can be taken to prevent risk and reduce any loss. There is more detail about the actions we are taking in different parts of our operation in table 11.6 of our Climate Change Adaptation Report at **www.anglianwater.co.uk**.

Our carbon reduction targets are among the Company's Outcome Delivery Incentives (ODIs), which are used to measure our performance against the outcomes we have agreed with our customers. In 2016, Anglian Water became the first organisation globally to be verified against the requirements of the PAS 2080 Carbon Management in Infrastructure standard (see page 68).

We have also been ISO 14064 certified through Achilles Carbon and Energy Management and Reduction Scheme (CEMARS) since 2010. This is external evidence that we have a climate-related strategy in place and that we have shown seven years of continual reductions in GHG emissions.

RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

Effective risk management is central to the achievement of our strategic priorities. It is managed across our business through a number of formal and informal processes. These risk management processes sit within our overall governance framework, which includes clear accountabilities, delegated authority limits and well-defined policies and procedures that govern employee conduct.

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

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

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

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

To provide the Management Board with an overview of the risk landscape, we have mapped the top-tier risks onto a Strategic Business Risk Map. The Risk Map also includes business-wide risks which, although not so significant as to be top-tier risks, the Management Board wishes to keep 'on the radar'. This overview is reviewed on a monthly basis by management to ensure we have identified and created coverage of all significant risks in the business and can readily identify new risks, see any changes in risks, review our progress in delivering mitigation actions and maintain relevant business controls. This Map will remain dynamic as new risks emerge or there are significant changes to our mitigation actions or controls.

RISK APPETITE

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

Anglian Water Services has a structured approach to risk assessment, with the Board defining the principal risks in respect of all its key impact categories in the context of its obligations to keep its employees safe and provide an essential and efficient service to customers. The Board's assessment of risk helps senior management to determine the mitigating activities required to control risk likelihood and impact to acceptable levels.

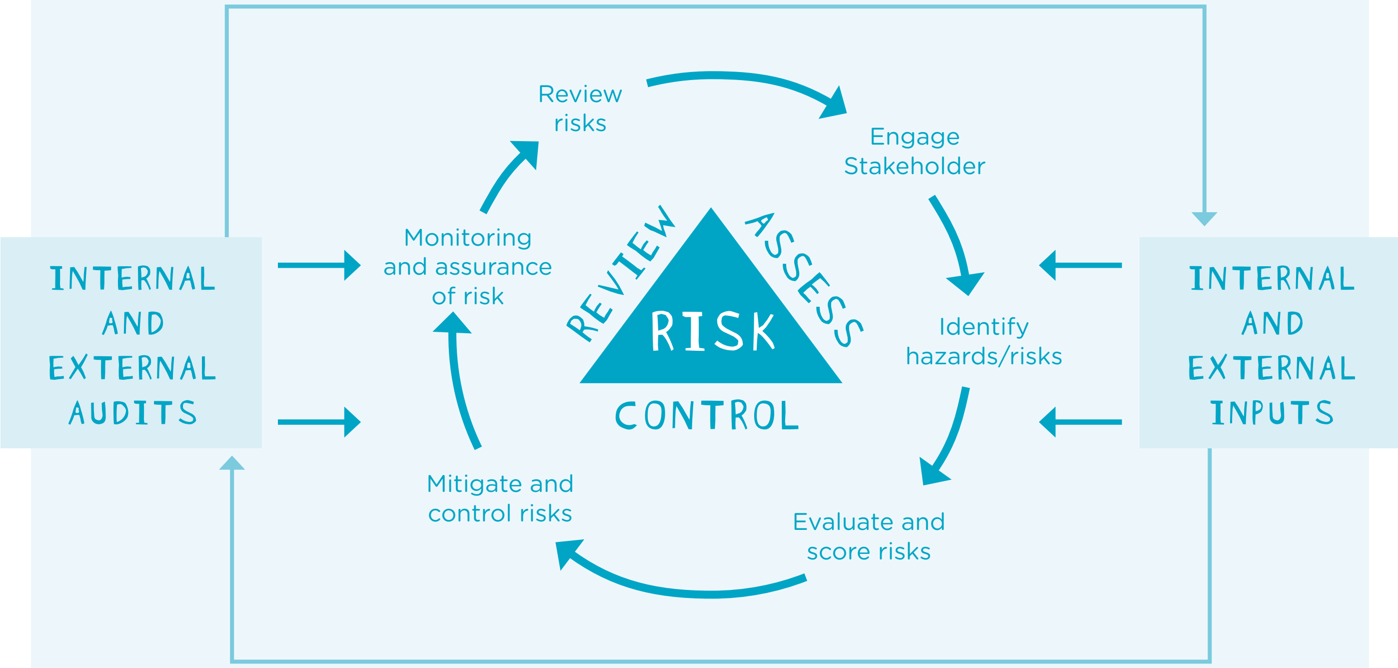
For principal risks, we review the current risk level and how our controls provide confidence and assurance around our management of that risk. Where a gap exists between our current position and our mitigated aspiration, we instigate new or revised actions to close any risk gap.

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

The Company continues to ensure compliance with the Anglian Water Services 2015 Corporate Governance Code. Further information can be found in the Corporate Governance Report on page 102.

RISK MANAGEMENT PROCESS

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



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

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

Management also considers new, changing or emerging risks. Through a process of review and discussion we have developed a methodology for setting an appropriate target position for each principal risk. Where the existing level of risk is assessed as not meeting the target, additional controls or mitigating measures are identified in order to reduce the risk to the target level. This is formally recorded in the top-tier risk register referred to above. In addition, we link the principal risks to our assurance plan to ensure assurance is properly focused on the most significant risks. The Board has requested assurance that the controls implemented are tested and, where required, externally tested. This assurance is delivered through business resilience planning and scenario testing, health and safety audits and compliance, internal and external audit activities, external certification, governance and compliance activities.

KEY

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

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

B Status of the actions to controlling the risks

C Status of current risk position

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

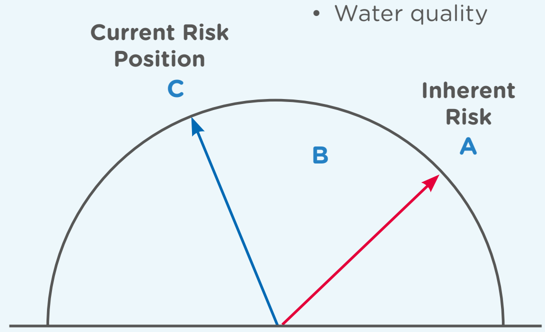
- **RED**: any mitigating action/s and any business controls are found to require significant improvements to manage the risk.
- **AMBER**: the risk is emerging or changing and action is in place to develop the mitigation actions and/or through review any business controls are found to be not fully effective.
- **GREEN**: any mitigating action/s are on course, and the business controls are in place and effective.

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

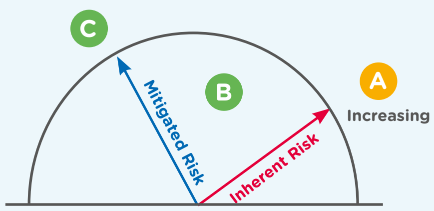
PRINCIPAL RISKS

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

- Water sector reform and other legislation
- Financing our business
- Pensions
- Regional growth
- Long-term supply demand resilience
- Pollutions
- Failure to deliver our AMP6 plan
- Preparing for ODI changes in AMP7
- Brexit
- Customer
- Health and safety
- Talent and succession
- Cyber security
- Water quality



WATER SECTOR REFORM AND OTHER LEGISLATION



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

We keep abreast of all new legislation passed by Parliament and ensure we comply with existing laws that affect all businesses, including the Competition Act and the Bribery Act. We also ensure we comply with the Data Protection Act and have prepared for the introduction of the General Data Protection Regulation (GDPR), which came into force in May this year. In addition, the Water Act 2014 enables further competition within the water sector. For example, all business customers now have the option to choose their retail supplier. The 2014 Act also makes provision for further upstream reforms. To facilitate the new retail market and to set more effective incentives for different parts of the value chain, Ofwat has also set separate price controls for retail and wholesale activities.

We believe we are in a good position in terms of water sector reform and other legislation. We have a significant programme of work in place to mitigate the risks associated with GDPR compliance. While many of the deliverables associated with this programme were in place by May 2018, we anticipate that further work will be required to ensure that appropriate technical measures are embedded. On this basis, we have classed the current risk as amber. We will continue to monitor, test and audit compliance with current and new legislation to maintain a high level of assurance and to highlight any areas requiring action.

(B) CONTROLS AND MITIGATION (GREEN)

We carefully manage compliance with current legislation and continue to monitor new legislation. Where possible, we seek to influence forthcoming legislation. To manage compliance we have numerous business controls and processes that are supported by our online training system, which we have used to ensure adequate awareness across the business of the risks associated with breaches of legislation such as the Competition Act, Data Protection Act and Bribery Act.

We continue to be actively involved in the development of market reform across our industry and played a key role in the development of the non-household retail market. Following the opening of this market, our focus is now on ensuring that all retailers receive the same levels of customer service. Our Wholesale Services business unit provides a single point of contact for all non-household retailers into Anglian Water Services and ensures that we comply with the new market codes.

In anticipation of the implementation of GDPR, we set up a project to focus on improvements to our management of personal data. This project has four key work streams (including one that focuses on education, communication, policies and procedures, roles and responsibilities, reports and dashboards, and updating our information asset register) and is monitored by a steering group chaired by the Group Legal Director – who is also our Data Protection Officer.

A new training package has been developed to cover GDPR requirements, and is mandatory for all employees. Data & Compliance Champions identified across the business regularly attend workshops designed to ensure wider business understanding and support for data-related activities. A Privacy Impact Assessment (PIA) process is in place to assess the impact on data protection compliance when new systems are planned, or when projects require sign-off by our Legal team.

In response to the Criminal Finances Act, we have undertaken a risk assessment and identified areas of the business and activities that are at greatest risk of facilitating tax evasion. A number of mitigations are already in place and we have ensured that higher risk individuals receive appropriate training.

The Company's employees have also completed Level Playing Field training so they understand how to behave and operate in the non-household retail market to minimise the risk of anti-competitive behaviour and ensure compliance with Competition Law.

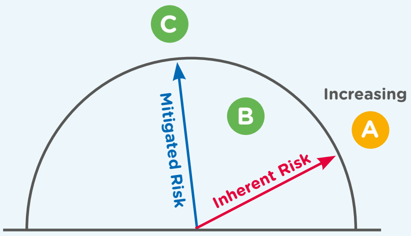
Anglian Water's anti-bribery strategy is supported by the ISO 37001 Anti Bribery Management System, with processes aligned with the Integrated Management System (IMS) framework. This system, externally certificated by Lloyds Register of Quality Assurance (LRQA), helps to ensure processes and controls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

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

(C) CURRENT RISK ASSESSMENT (GREEN)

We are satisfied with our current risk position on the basis that the controls are in place. We will continue to monitor, test and audit compliance with legislation to maintain a high level of assurance and to highlight any areas requiring action.

FINANCING OUR BUSINESS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

We are funding a Totex programme of £5 billion in AMP6 and have gross debt of £6.5 billion to manage and service. Recognising recent challenges from Government and our economic regulator, we are showing this risk as increasing; however, we have responded to these challenges with a commitment to reduce shareholder dividends and leverage and have improved the transparency and clarity of our financial structure. The volatility in the financial markets and the continued uncertainty around the Brexit process and other world events lead us to continue to maintain a strong focus on this risk, hence an Amber status.

(B) CONTROLS AND MITIGATION (GREEN)

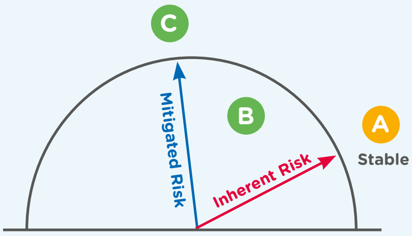
It is critical that we have robust financing and liquidity management arrangements in place. Revenue from our customers, together with the proceeds of new debt raised, will finance the Totex programme. Our debt comprises long-term public and private bonds and other debt instruments, with equity (shares) making up the balance of our regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are predominately fixed, either to the Retail Price Index (RPI) or fixed notional levels.

Net debt accounts for approximately 78 per cent of our regulatory capital value as at 31 March 2018, as measured in our financial covenants agreed with our debt providers. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average, producing lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity. We manage our financing risks through regular senior level meetings held with banks, ratings agencies and bond holders, along with internal monitoring of our treasury strategy and liquidity, energy and covenant policies through our Finance, Treasury and Energy Policy Group.

(C) CURRENT RISK ASSESSMENT (GREEN)

Due to a combination of continued political and regulatory uncertainty and the potential impact of Brexit, risk has increased. This has been mitigated by decisive Board and shareholder action to enhance our financial robustness through significantly reducing dividends paid to shareholders and by reducing debt. We will continue to monitor external factors that may impact the business, and will also test and audit compliance with legislation as well as our finance contracts to maintain a strong level of assurance and to highlight any areas requiring action.

PENSIONS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

The risk is that the funding levels in the Anglian Water Group Pension Scheme (AWGPS) deteriorate, requiring the Company to inject additional funds. The last triennial valuation was on 31 March 2017 and we have since agreed a revised funding plan with the Trustees that will continue through to 2026. Due to continuing low interest rates and gilt returns, the deficit is higher than at the 2014 valuation. However, the risk has been mitigated as the pension scheme is no longer open to future accrual. This means no additional years of service causing additional liabilities are going to be added. The liability continues to be subject to risks such as lower investment returns, low discount rates and longevity.

(B) CONTROLS AND MITIGATION (GREEN)

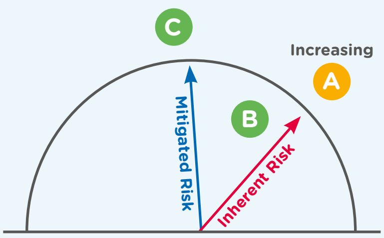
Following an extensive consultation with our employees, employee representatives and Trustees, the AWGPS was closed to future accrual from 1 April 2018. We have agreed a deficit recovery plan with the Trustees and work is under way to mitigate risks further, such as volatility caused by higher levels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

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

(C) CURRENT RISK ASSESSMENT (GREEN)

Current changes to the Anglian Water pension schemes will see this risk stabilise, hence its Green status.

REGIONAL GROWTH



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

As one of the fastest-growing areas in the UK, managing the forecast rise in population in our region is one of our most significant long-term challenges.

As economic conditions in the UK improve, the number of new developments is increasing, and meeting the growth in demand for new services remains a key area of focus for the business.

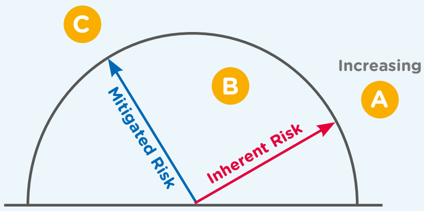
(B) CONTROLS AND MITIGATION (GREEN)

We invest considerable effort in forecasting our supply and demand requirements at a local and a regional level for the next 25 years. We continually assess our investment options to identify the most cost-effective combination of new water resources, network enhancements and demand management measures to meet this challenge. We are also championing the use of sustainable drainage techniques in place of piped systems as a more environmentally sound way of managing surface water in our growing region. We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources, and our draft Water Resources Management Plan (WRMP) outlines an ambitious, cost beneficial, demand management strategy that is forecast to offset the impacts of growth in our region.

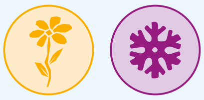
(C) CURRENT RISK ASSESSMENT (GREEN)

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

LONG-TERM SUPPLY DEMAND RESILIENCE



Outcomes affected by this risk:



(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Ensuring our business is resilient to long-term supply and demand requirements is a stretching target but critical for our customers and ultimately our customer needs. Climate change is a major challenge to our business that can impact our assets and service to our customers. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, and our low-lying landscape makes us particularly vulnerable to localised flooding during severe weather events. We see the inherent risk continuing to increase for the business, with the effects of climate change, customer demand and environmental challenges, hence an Amber status.

(B) CONTROLS AND MITIGATION (AMBER)

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

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

More than 20 years ago, we started incorporating climate change in our WRMPs, and in March 2018 we published, for consultation, a draft of our latest WRMP. The plan ensures we are resilient against the median climate change scenario and severe drought. Through the consultation we are also seeking support from our customers for £500 million of investment, which would further mitigate the impact of climate change, drought and future environmental challenges.

We believe that climate change is increasing the risk of flooding of our sites and from our sewers. Therefore, we are continuing to collaborate with other stakeholders to understand the impact of climate change and mitigate these risks. For example, we recently committed to put up £1.5 million for matched funding to get more partner flood schemes off the ground. During the year, we also completed 35 sites identified for flood protection in the 2015–2020 period, and continued to allow for climate change in the design of our catchments.

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

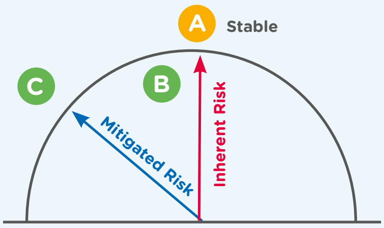
We continue to invest to deliver our target of reducing leakage by some 20Ml/d to 172Ml/d by the end of AMP6, which helps mitigate the impact of extended dry periods. Our draft WRMP outlines our ambitious future demand management strategy, including £250 million of investment in AMP7 to continue to drive down leakage, install smart meters across our region and roll out our water-saving measures.

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

(C) CURRENT RISK ASSESSMENT (AMBER)

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

POLLUTIONS



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

Such incidents are classified by the Environment Agency and, depending on their severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to the Company, and the fines they attract, make them a significant risk. We have seen this unmitigated risk to the business increase due to the scale of fines and reputational impact associated with pollution events, hence an Amber status.

(B) CONTROLS AND MITIGATION (GREEN)

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

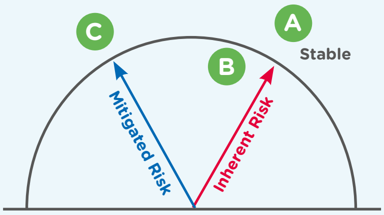
This includes:

- Spending around £6 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority ‘blue light’ or fast response for areas with historical pollution risk and/or significant environmental sensitivity.
- Investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock.
- Continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information, including a reporting app to improve the quality and consistency of information from the field.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident.
- Making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets.
- Investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

FAILURE TO DELIVER OUR AMP6 PLAN



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

The delivery of our AMP6 plan, our commitments to our customers and the quality and efficiency of our operations are vital to our success – keeping our costs under control helps to minimise our customers' bills and is an important measure of our performance within the regulatory structure.

Our performance is linked to significant penalties or rewards under the new system of Outcome Delivery Incentives (ODIs). This represents a significant financial risk to the business if we fail to meet the required standard in a number of areas.

(B) CONTROLS AND MITIGATION (GREEN)

Delivery of our outcomes (and delivery of the ODIs) has required us to adapt our business strategies. We have a detailed programme of investment and improvements to processes, assets and infrastructure to fulfil our customer requirements and improve their experience. We are moving to ever more proactive, targeted and efficient ways of working, and better, smarter use of systems and data. We are increasing collaboration across the business, with key stakeholders and with customers. We aim to continuously monitor and improve our performance to achieve and exceed the measures set.

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

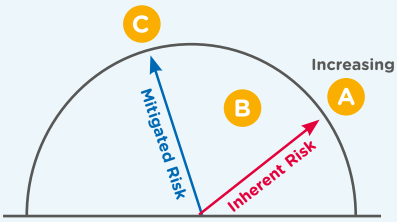
Examples of projects we have implemented include the following:

- Integrating our supply chain into the business; for example, through four main delivery alliances.
- Developing our strategies to reduce costs across our supply chain, refining our procurement and sourcing strategy.
- Pursuing energy efficiency and energy optimisation of our treatment and distribution systems, implementing new and leading monitoring systems to improve energy consumption.
- Encouraging business units to implement smaller, locally driven initiatives, drawing on our Love Every Minute programme (based on Lean and Six Sigma methodologies).
- Carrying out rigorous root cause analysis early on in our capital delivery process to ensure we provide the right whole-life cost solutions.
- Focusing on both cost and carbon, and the relationship between them, to find innovative ways of providing sustainable solutions.
- Developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site.
- Investment in the delivery of our ODIs to maximise success for our customers. For example, Interruptions to Supply, Leakage, Catchment and Coastal Management and Pollutions.
- Further developing our Shop Window to innovate and drive investment for an improved customer experience and to meet some of our goals for water efficiency in the future.

(C) CURRENT RISK ASSESSMENT (GREEN)

We continue to make good progress. Our efficiency in delivery has been essential to mitigate the impact of additional costs that were not included in prices – for example, the adoption of private pumping stations in 2016. Being successful in AMP6 will require innovation, collaboration and transformation to continue delivering cost efficiencies while ensuring strong performance on our ODIs.

PREPARING FOR ODI CHANGES IN AMP7



Outcomes affected by this risk:

Ofwat's final methodology for PR19 was published in December 2017. It sets out a very challenging framework for companies during AMP7, with an indicative weighted average cost of capital (WACC) of 2.4 per cent, the lowest by some margin ever set by a UK regulator, and very stretching expectations of performance. In April 2018, Ofwat published a further consultation, 'Putting the Sector Back in Balance', which proposed a number of changes to the Final Methodology including proposals to share financing outperformance. Together, these changes saw ratings agency Moody's move Anglian Water and a number of other companies to a 'negative outlook' rating in May 2018.

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

These include:

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

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

(B) CONTROLS AND MITIGATION (AMBER)

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

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

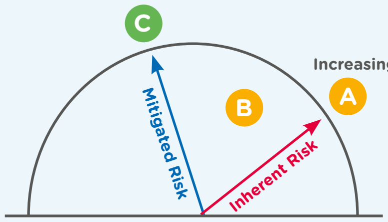
The strength of our submission will be reflected in both the Initial Assessment of Business Plans and Final Determination.

The higher the quality of our plan, the less risk there will be that we need to make adjustments to our ODIs, particularly in terms of the level of commitment of the incentives rates, which could materially change the level of challenge in achieving these ODIs in AMP7.

(C) CURRENT RISK ASSESSMENT (AMBER)

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

BREXIT



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

- Implications for the supply chain, including increased costs if there are new tariffs on goods, and delays from customs checks and duties.
- Restricted access to finance from the European Investment Bank, as the UK has signalled it no longer wishes to be a member but wishes to explore a future relationship.
- Restricted access to EU labour markets. At present, Anglian Water's exposure to this risk is low, given that only one per cent of our directly employed workforce originates from the EU. The skills shortage facing Anglian Water owes more to an ageing workforce rather than a migrant workforce. However, there will likely be restrictions on future labour market access when freedom of movement ends.
- Risk that some domestic policy issues may not be addressed until after Brexit negotiations have concluded, given the resources being dedicated to Brexit.
- Political instability linked to Brexit, such as an early general election.

(B) CONTROLS AND MITIGATION (AMBER)

Continual high-level assessment of the risks and opportunities from Brexit has been undertaken at Management Board meetings since the 2016 referendum. This has been complemented by an increased focus on engaging with politicians and policymakers to ensure we establish Anglian Water as an influential stakeholder and that our messaging and priorities are being received. This includes a much more proactive participation in the parliamentary and governmental policymaking process through submissions to more Government consultations, parliamentary select committee inquiries, and face-to-face engagements with senior figures. This approach has been successful, particularly with Defra's embrace of our resilience messaging and the implementation of the 'twin track' approach to managing water resources in the long term, and our first invitation to give oral evidence to a Commons Select Committee since 2016.

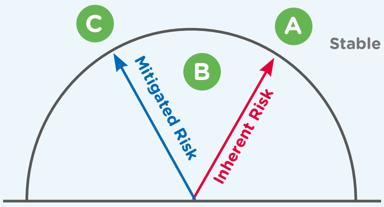
Practically speaking, we are using Brexit as an opportunity to innovate and explore alternative solutions to the risks. Examples of this include:

- Becoming the first public utility to issue Green Bonds to finance our portfolio of capital projects. This offers a new avenue of finance on terms not dissimilar to those offered by the European Investment Bank.
- Our involvement in the regional skills agenda continues to grow, through the Greater Peterborough University Technical College, College of West Anglia and our own Community Education team, as we seek to address the skills gap with homegrown talent. Additionally, our graduate and apprenticeship programmes are expanding to meet the skills challenge.
- We continue to demonstrate Anglian Water's leadership as a responsible business. In addition to winning BITC's Responsible Business of the Year 2017 and being named a Leading Utility of the World, we recently made a series of corporate governance changes to demonstrate our commitment to acting in the public interest. These include reducing shareholder dividends, simplifying our corporate structure and changing the composition of the Board so that independent directors are in the majority.
- These changes have been accompanied by an increased focus on engaging with politicians from beyond the governing party to demonstrate the merits of private investment and responsible corporate governance in the water sector.

(C) CURRENT RISK ASSESSMENT (GREEN)

We are in a better place than we were 12 months ago, with much more clarity around the immediate consequences of Brexit and the stability offered thus far to the end of the AMP but with less clarity beyond this point. There is still more to be done to assess and mitigate the risks of Brexit but it also presents us with some unique opportunities to put water at the heart of public policy in a way we could not have done previously. For example, we are excited about the potential we have to shape and influence the replacement of the Common Agricultural Policy at the UK level. There are real potential benefits that could be delivered here for water quality, the environment, public water supply and agriculture.

CUSTOMER



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

Our success depends on customers and stakeholders thinking well of us, so the credibility and reputation with them is all important. Our Keep It Clear campaign and water efficiency goals are just two of the areas in which we rely on the help and goodwill of customers to succeed. Unwanted media attention – from print, broadcast or social media – has the potential to damage our reputation and erode that trust.

Some of the largest potential penalties are attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies.

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

(B) CONTROLS AND MITIGATION (GREEN)

Delivery of our AMP6 plan and customer outcomes is essential to maintaining our reputation. Our business performance over the past year has helped minimise the impact of this risk, avoiding poor publicity and building on the positive work we carry out across communities and the environment.

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

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

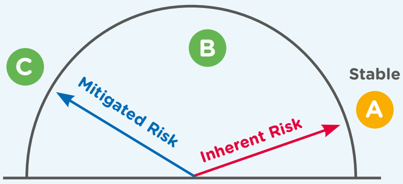
We are investing in new IT systems, social media, training and processes to ensure customers only need to contact us once to resolve a problem, and that we respond ever more quickly to meet their needs.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

Many elements will build on the plans we have this year; putting the customer at the heart of what we do and building a strong and efficient business where our people feel empowered and inspired by where they work. We are also thinking about setting ourselves up for the next AMP from 2020 and beyond, including new challenges and opportunities such as the new Customer and Developer Services satisfaction measures (CMEX and DMEX) and smart metering.

HEALTH AND SAFETY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

Maintaining the welfare of our employees and customers is paramount. Failing to understand and interpret health and safety legislation, or to communicate and implement policies, procedures and instructions to ensure safe working practices are understood and followed by all employees, could result in unnecessary accidents and injuries to employees, contractors and customers. This could lead to Anglian Water being prosecuted and, if found guilty, suffering reputational damage and significant fines. The inherent health and safety risk has not changed over the past year; however, the potential impact of fines on the business has increased with changes to the sentencing guidelines.

(B) CONTROLS AND MITIGATION (GREEN)

The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' safety and believe that work should have a positive impact on their health and wellbeing.
The Management Board reviews health and safety performance and associated actions monthly, immediately reporting any significant incidents to the Board. Performance is also monitored through our OHSAS 18001 Certificated Safe and Well Management System, with six monthly external reviews by LRQA as well as through our internal audit programme.

Our management systems track near-misses and actions from audits, inspections and accident/incident investigations, as well as providing access to current policies and procedures and safe systems of work. Throughout the business we have a series of health, safety and wellbeing networks that report to the director-led Company health, safety and wellbeing stakeholders so that best practice is shared and any issues or concerns can be effectively managed.

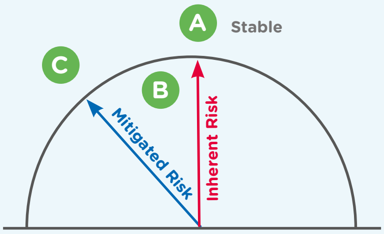
Underpinning our approach is LIFE, a philosophy that focuses on health, safety and wellbeing and reflects our vision of happier, healthier and safer employees. LIFE is about moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. It will create a culture of care and concern where we look out for each other and make the right choices. This is a long-term commitment – to date, we have run numerous health and wellbeing campaigns focusing on the happier and healthier pillars of LIFE, which includes mental and physical health. We have also held LIFE sessions where over 3,000 people, including personnel from our alliance partners, have attended focusing on the safety element.

We launched a three-year health, safety and wellbeing plan, which has been developed with stakeholders across the business, initiatives from outside the business such as Water UK and the HSE, and our own health and safety information, ensuring we are focusing on current and relevant areas and potential high risks. We have also invested in IT technology to improve our health and safety management system for incident reporting.

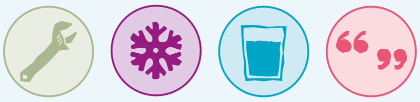
(C) CURRENT RISK ASSESSMENT (GREEN)

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

TALENT AND SUCCESSION



Outcomes affected by this risk:



(A) UNMITIGATED RISK DESCRIPTION (green)

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

(B) CONTROLS AND MITIGATION (GREEN)

Our succession-planning processes are fully embedded, with rigorous analysis to check the quality and depth of succession pipelines for key posts. We look 10 years ahead, identifying and developing candidates for these posts, with external market mapping used where appropriate.

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

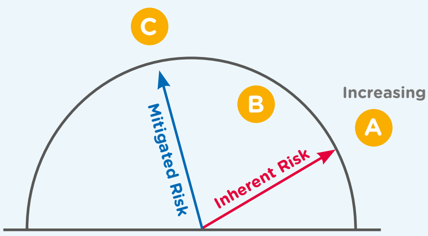
Pension freedoms and the publicity around them may mean that more experienced members of staff with specialist knowledge may consider early or partial retirement. A proactive approach to identifying those staff has been undertaken, and succession plans are well advanced to mitigate any impact this may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

Senior managers, key skills and talent are covered by Long-Term Incentive Plan (LTIP) schemes, retention bonuses and non-financial retention arrangements, including active development plans. Executive management carries out regular and formal reviews of our succession-planning process and talent pipelines, using external advisors where appropriate.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

CYBER SECURITY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

(B) CONTROLS AND MITIGATION (AMBER)

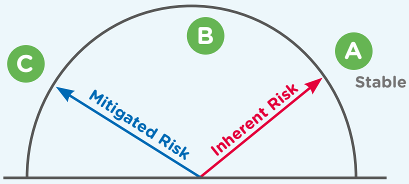
We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external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

In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. Additional vetting of new employees and an extension to our supplier risk assessment have been implemented to support our security improvements.

(C) CURRENT RISK ASSESSMENT (AMBER)

With cyber risk increasing, we are mitigating this risk with further training along with cultural and system changes within the business. We are keeping abreast of the ever-shifting cyber landscape and actively adapting our controls to minimise risk. However, the overall and increasing risk is at Amber.

WATER QUALITY



Outcomes affected by this risk:

(A) UNMITIGATED RISK DESCRIPTION (GREEN)

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

(B) CONTROLS AND MITIGATION (GREEN)

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

Regular audits are carried out both internally and externally. Water Services processes are externally assessed annually by LRQA to ISO 9001 quality management and ISO 22301 business continuity management system standards.

UKAS audits our laboratory as part of ISO 17025. A comprehensive internal audit programme is signed off each year by the Director of Water Services and the Senior Leadership team, and is delivered by members of the Water Quality and the Risk and Systems teams.

Following some potentially serious incidents in the water industry (not within Anglian Water Services) regarding the quality of chemicals obtained from third-party suppliers, part of the 2017/18 Water Quality Internal Audit programme required the audit of all suppliers of potable water treatment chemicals. Audits were conducted in collaboration with the Water Quality team, Integrated Supply Chain, Risk and Systems, and LRQA. Generally, good compliance was witnessed, with corrective actions successfully progressed to closure. The outputs from these audits have given us a much greater understanding of our risk position with chemical suppliers, and are being used to inform our ongoing risk-based audit programme.

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

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

We also ensure that operational and scientific employees are trained and assessed as competent. Our industry-leading Licence to Operate programme sets benchmarks and expectations for competency and is being further enhanced by a drive towards professional registration such as chartership through professional bodies such as the Institute of Water.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

SIGNIFICANT FAILINGS, WEAKNESSES AND AREAS OF CONCERN

The Board has a responsibility to disclose 'significant failings and weaknesses' or areas of concern that have not been resolved by year end. While the Corporate Governance Code (on which Anglian Water's Governance Code is based) does not define 'significant failings', the Board's interpretation of this requirement is that there is a need to disclose any control failure or omission that, if unchecked, has the potential to result in significant financial, operational or reputational damage to the business.

Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2018 no red risks were reported.

BUSINESS VIABILITY

BACKGROUND

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

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

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

LOOK-FORWARD PERIOD

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

The Directors have assessed Anglian Water's financial viability over the next five years from April 2018 to March 2023, three years beyond the end of the current AMP period (AMP6) in March 2020. A five-year look-forward period is considered to be appropriate for the following reasons:

- The first two years take us to the end of the current AMP for which there is reasonable certainty and clarity, allowing realistic assessments of our principal risks to be made.
- The last three years of the five-year period are outside the current AMP and therefore subject to the final outcome of the current price review (PR19), which is to be confirmed. However, at this stage we have used the very challenging indicative weighted average cost of capital (WACC) rate that Ofwat has signalled for AMP7 as the basis for our stress testing. We also note that in an incentive-based regulatory regime we have the opportunity to be rewarded for outperforming the regulatory determination. However, given the low indicative WACC rate, we have had to take mitigating action in our planning, resulting in substantial reductions in dividends to achieve financial resilience. Finally, we take note of the Water Industry Act, which requires Ofwat to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.
- We have developed robust business forecasts that cover this period.
- The Board considered whether there are specific foreseeable risk events relating to the principal risks that are likely to materialise within a five-year period, and that might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. These were modelled appropriately within our downside scenarios.
- The Board considers the maturity profiles of debt and the availability of new finance over five years and beyond as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.

PRINCIPAL RISKS

We have set out the details of the principal risks facing our Company on pages 74 to 88, described in relation to our ability to deliver our 10 outcomes. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently. This process is described in more detail on pages 74 to 88.

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

STRESS TESTING THE BUSINESS PLAN

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bond holders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance the Company's investment programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive stress testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they have the greatest risk to the business. The scenarios outlined on the next page have been used individually and in combination:

- Financial and operational impacts arising from severe but plausible crystallisation of the principal risks set out on pages 74 to 88, and the likely effectiveness of available mitigating actions.
- No further totex outperformance in the current AMP and beyond.
- Material totex underperformance.
- Material ODI penalties.
- Regulatory fines and legal penalties. Unfunded pension liabilities and potential cost impacts of Brexit.
- The potential impact of credit rating agencies downgrading the debt for any companies in the Group.
- Cost of debt increases.
- Significant inflation fluctuations.
- Combined scenarios are based on material totex and retail cost underperformance, along with ODI penalties all occurring in each year of the five-year look-forward period. Other combined scenarios include aggregate cost underperformance coupled with material reductions to revenue associated with lower inflationary scenarios.

MITIGATING ACTIONS

For each sensitivity and combined scenarios, we identify the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the Company's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure, and identifying further opportunities to reduce the Company's cost base or financing costs.

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

BENEFITS OF THE SECURITISED STRUCTURE

The highly covenanted nature of our financing arrangements (often described as a whole business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders and lenders, compared to the regulatory frameworks that we are governed by. This structure, together with a track record of strong operational performance, helps ensure that we have good credit ratings and are able to raise debt at similar or better rates than peers. Notwithstanding our strong track record of financial resilience, we have agreed that over the current AMP we are reducing our gearing by cutting dividends, and we have announced that we expect to see a substantial reduction in dividends to our shareholders through to 2025.

ASSURANCE

Internal assurance is provided by the Board, which reviews and challenges the stress test scenarios selected and the risk mitigation strategies. The Directors also obtain independent third-party assurance on the integrity of the long-term cash flow model that underpins the financial projections. While we do not obtain specific third-party assurance on the stress tests, the external auditors have sight of the relevant Board papers and the process undertaken. They consider whether these are consistent with the Directors' conclusion with respect to business viability, and if the processes undertaken are sufficient and consistent with the statements made.

DIRECTORS' STATEMENT

The Directors are required to submit their business plan for the next AMP to Ofwat in September 2018 and this will form the basis for setting customer prices. The current draft of this plan shows that the expectation of a reduced cost of capital set by Ofwat will be a significant challenge to our financeability in the next AMP. However, we are an efficient company with a history of outperformance and we would expect to agree a business plan with the regulator that is financeable and that meets the respective obligations and responsibilities of both the company and the regulator.

Subject to the final outcome of the new periodic review being aligned with our base plan, the Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due, at least to March 2023, and is financially resilient. This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process described above.

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

FINANCIAL PERFORMANCE

The financial results have been prepared in accordance with International Financial Reporting Standards (IFRSs). The Company's activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and wastewater) and the conditions of an Instrument of Appointment (the Licence) granted to the Company by the Secretary of State for the Environment on 1 September 1989.

FINANCIAL RESULTS

The underlying financial results are summarised in the table below:

	2018 Total £m	2017 Total £m
Revenue	**1,248.9**	1,227.0
Other operating income	**16.1**	14.8
Operating costs	**(581.0)**	(565.3)
Depreciation	**(335.5)**	(311.2)
Operating profit	**348.5**	365.3
Finance income (adjusted)[1]	**1.6**	2.0
Finance costs[2]	**(344.1)**	(283.2)
Underlying profit before tax[3]	**6.0**	84.1
Statutory profit before tax	**320.0**	160.4

Total revenue for the year was £1,248.9 million, an increase of £21.9 million (1.8 per cent) on last year. This primarily reflects the regulatory tariff increase and modest growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers following the transfer of those customers on 1 April 2017 to Anglian Water Business (National) Limited (AWBN) and a small fall in consumption.

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

[1] Finance income on an underlying basis excludes internal interest receivable by the Group from Anglian Water Services Holdings Limited of £191.8 million (2017: £192.3 million) as it is matched by an internal round-trip dividend payment to give a net nil position overall. From 29 March 2018, this Group interest income, and the associated round-trip dividend, ceased when the related inter-company loan was settled as part of a simplification of the Group structure.

[2] In order to show performance on an underlying basis, the fair value gains on financial derivatives of £117.6 million (2017: losses of £116.0 million) have been excluded from the table because these are volatile non-cash annual movements that distort the actual underlying economic performance.

[3] Underlying profit before tax is reconciled to the statutory profit before tax by adjusting for the items in notes 1 and 2 above and the non-recurring profit on disposal of non-household retail business of £4.6 million (2017: £nil).

[4] IFRS has increased opex volatility from minor repair costs which would have been treated as capex under the old UK GAAP infrastructure renewals accounting rules.

Operating costs (excluding profits and losses on fixed asset disposals) for the year increased by £15.7 million (2.8 per cent) to £581.0 million. This increase is explained in the following table:

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

	£m
General inflationary increases	13.7
Providing more effective solutions through operational maintenance, rather than capital investment	12.5
Decrease in minor repair activities to maintain water and wastewater below ground infrastructure[4]	(9.2)
Increase in energy prices	7.4
Increase in pension costs	4.7
Operating costs of newly commissioned plant	3.5
Increase in self-insurance claims, principally due to the severe winter weather	3.0
Reinvestment of capital expenditure efficiencies in operational maintenance solutions	2.8
Net efficiency savings achieved	(14.6)
2016/17 operating costs of the non-household business not repeating following the transfer of business on 1 April 2017	(8.1)
Net increase in operating costs	15.7

During the year we identified a number of capital projects that could be replaced with more cost-effective operational solutions. This had the effect of increasing operating costs by £12.5 million.

Pension costs increased by £4.7 million compared with last year, comprising a £3.0 million increase in respect of the current service cost, and £1.7 million associated with the closure of the defined benefit schemes to future accruals at the end of the year. The principal reason for closing the defined benefit schemes is that the continuing future service costs have become unsustainable compared to the allowed future costs for pension provision. On 1 April 2018, the defined benefit schemes were replaced with a new high-quality defined contribution scheme that offers all employees an equitable and more flexible scheme.

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

Depreciation is up 7.8 per cent compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit has decreased by 4.6 per cent to £348.5 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Net finance costs – excluding the inter-company interest receivable of £191.8 million (2017: £192.3 million) and before fair value gains and losses on derivative financial instruments – increased from £281.2 million in 2017 to £342.5 million in 2018. This was primarily the result of the non-cash impact of higher inflation on index-linked debt where the year on year average Retail Price Index (RPI) increased from 2.1 per cent to 3.7 per cent.

There was a non-cash fair value gain of £117.6 million on derivative financial instruments in 2018, compared with a loss of £116.0 million in 2017. This shift was due to movements in market expectations of long-term interest, inflation and exchange rates. These fair value gains and losses have no commercial or economic impact on the Group's operations or customers. The driving factors for the gain in 2018 compared to the loss in 2017 were a fall in forward inflation expectations together with an increase in forward interest rates. During the year, forward inflation rates fell by circa 13 basis points (2017: 38 basis point increase), and forward interest rates increased by 19 basis points (2017: 23 basis point decrease).

Underlying profit before tax for the year was £6.0 million, compared with £84.1 million in the prior year. This reduction reflects the decrease in operating profit and the increase in finance costs (excluding fair value gains/losses on derivatives) due principally to a higher RPI.

TAXATION

Our underlying effective tax rate is in line with the rate of corporation tax before considering losses surrendered from other Group companies. Our relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment, the interest we pay to fund that investment and the availability of surplus ACT (corporation tax paid in advance). We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2018, other than corporation tax, amounted to £227 million (2017: £210 million), of which £71 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

Current tax

The current tax charge for the year was £44.0 million (2017: £101.5 million). The decrease was due to a reduction in profits before taking account of fair value adjustments on derivative financial instruments, which have no current tax effect. The charge for 2017 also included a charge of £40.1 million for prior year items.

Deferred tax

The deferred tax credit has reduced from £139.4 million to £16.3 million. The comparative year included the impact of the reduction in future tax rates used to calculate deferred tax from 18 per cent to 17 per cent, which gave rise to a credit of £54.3 million, and also a credit of £28.3 million for prior year items and refinement to the classification of deferred tax balances. Excluding the effect of these two items, the underlying deferred tax credit for the year has reduced from £56.8 million to £16.3 million. The main reason for this decrease was the movement in fair value on financial derivatives, which changed from a loss of £116.0 million last year to a gain of £117.6 million this year.

SUCCESSFUL THIRD YEAR OF AMP6 INVESTMENT PROGRAMME

AMP6 gross capital expenditure[1] in the appointed business for the year was £460.9 million (£235.8 million on capital maintenance, £225.1 million on capital enhancement), compared to £381.2 million in the second year of AMP6. This level of expenditure is broadly in line with management expectations, and includes £23.5 million of capital maintenance spend in respect of our commitment to reinvest £100 million of efficiencies over the AMP, as announced in 2017. A further £65 million of reinvestment in resilience was announced in March 2018 and work is already under way; this will, among other benefits, improve the security of supply in south Lincolnshire by 2020.

One of the major projects worked on during the year was the Heigham Water Treatment Works Membrane scheme, which will deliver significant improvements to water supply resilience. Another is the ground-breaking work at Ingoldisthorpe Water Recycling Centre to install a nitrifying sand filter that will enhance and protect biodiversity while reducing operational costs. We have worked in close collaboration with both the Environment Agency (EA) and local Rivers Trust in delivering this project. Both of these projects were financed by our first Green Bond, which was raised in summer 2017.

Good progress has been made on meeting the EA's challenging targets for the removal of ammonia from wastewater discharged into water courses. Various solutions are being used to obtain EA consents for discharges, including: use of new technology at Great Dunmow; a lower build approach at Stanbridgeford; and a reuse and optimisation approach at Dunstable.

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

MARKET REFORM

On 1 April 2017, the operations and net assets of the non-household retail business were successfully transferred to Anglian Water Business (National) Limited (AWBN). The disposal proceeds and profit on disposal are disclosed in the notes to the accounts. On 31 August 2017, Anglian Water Venture Holdings Limited, the parent of AWBN, went into a 50:50 joint venture with Northumbrian Water Group Limited, forming a new jointly owned non-household retail operator called Wave.

FINANCIAL NEEDS AND RESOURCES

In the year to 31 March 2018, Anglian Water sourced £250 million of funds in term debt (£248.6 million net of debt issue costs) and made long-term debt repayments of £327.4 million. The new funds of £250 million were the result of the well-received Green Bond issued in the year, the proceeds of which will be used to finance our capital expenditure. Debt repayments comprised: a £5.7 million finance lease repayment; the repayment of the £150 million 5.5 per cent Class B and £25.5 million 4.2 per cent Class B bonds maturing in October 2017; £17.2 million of amortising redemptions on EIB loans; and the repayment of £55 million of the £600 million revolving credit facilities in the year, leaving the facilities undrawn as at 31 March 2018. In addition, Anglian Water paid down £73.9 million of accumulated indexation on the portfolio of index-linked RPI instruments following a restructuring of three long term RPI swaps.

At 31 March 2018, Anglian Water had borrowings net of cash of £6,896.4 million (£6,164.6 million excluding derivatives), an increase of £84.5 million (£119.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,451.7 million, derivative financial instruments of £731.8 million (excluding energy derivatives of £9.1 million), and cash and deposits of £287.1 million. The increased net borrowings primarily reflect the utilisation of cash within the operating business as detailed in the liquidity section below.

The business generated a net cash inflow from operating activities of £644.0 million in the year (2017: £632.0 million). The increase primarily reflects the increased revenues in the year and improved working capital, partially offset by higher operational costs.

DISTRIBUTIONS AVAILABLE TO THE ULTIMATE INVESTORS

Dividends paid out of the Group for the year ended 31 March 2018 were £86.1 million (2017: £128.0 million), which equates to £8.61 per share (2017: £12.80 per share).

The Directors have proposed a final dividend for the year ended 31 March 2018 of £6.80 per share, which is a total of £68.0 million. Based on the available free cash flow there was capacity to pay a dividend of £142.0 million. However, the Directors have significantly reduced the dividend to £68.0 million in line with their degearing target. This distribution has not been accounted for within the 2017/18 financial statements as it was approved after the year end.

[1] Stated on an IFRS basis but excluding capitalised interest and adopted assets acquired at nil consideration.

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

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

IMPROVING TRANSPARENCY AND CLARITY OF THE CORPORATE STRUCTURE, AND DISTRIBUTIONS NOT AVAILABLE TO THE ULTIMATE INVESTORS

Anglian Water Services Holdings Limited (AWSH) was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies – referred to as the Anglian Water Services Financing Group or AWSFG, and which also includes the Cayman Island company Anglian Water Services Overseas Holdings Limited (tax registered in the UK) and Anglian Water Services Financing Plc (AWSF) – protects customers and our debt providers from risks associated with other Anglian Water Group companies outside of the Anglian Water Services regulated 'ring fence'. This strengthens Anglian Water Services Limited's credit profile and credit ratings, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills. As part of establishing the structure, an inter-company loan of £1,609.1 million was put in place between Anglian Water Services Limited and AWSH (£6.5 million of which was repaid during the year ended 31 March 2012).

On 29 March 2018, following our commitment to simplify our corporate structure, a non-distributable restructuring dividend of £1,602.6 million (2017: £nil) was paid by Anglian Water Services Limited which flowed up to AWSH, in order for AWSH to repay the inter-company loan. The funds flowed back to Anglian Water Services Limited simultaneously when AWSH settled the loan in full. In addition, the removal from the group structure of the Cayman Island company Anglian Water Services Overseas Holdings Limited was completed in May 2018. It has been replaced with a UK-registered company, which ensures we retain the customer protection afforded by the ring-fenced structure referred to above – see pages 46 to 47 for more detail.

As in previous years, a non-distributable inter-company dividend of £191.8 million (2017: £192.3 million) was paid to AWSH (via AWS Overseas Holdings Limited) in order for it to service the interest payable to the Company on the inter-company loan of £1,602.6 million. This dividend is retained within the AWSFG. Following the settlement of the inter-company loan referred to above, these internal dividends, and the corresponding internal loan interest payments, will no longer be necessary in the future.

On 3 April 2017, as part of market reform, the Company paid a special dividend of £62.2 million to help fund the statutory transfer of the non-household retail business from Anglian Water Services Limited to Anglian Water Business (National) Limited. These funds were not available for distribution to investors in the ultimate parent company.

LIQUIDITY

The Company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2018, the Anglian Water Services Group held cash, deposits and current asset investments of £287.1 million (2017: £429.8 million). The reduction in cash held is the result of the Company seeking to lower its level of cash in order to reduce its cost of carry. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 17 on pages 171 to 173 of the accounts.

The Company has access to £600.0 million of facilities (2017: £600.0 million), which were undrawn as at 31 March 2018 to finance capital expenditure and working capital requirements. In addition, the Company has access to a further £390.0 million of liquidity facilities (2017: £375.0 million), consisting of £279.0 million to finance debt service costs and £111.0 million to finance operating expenditure and maintenance capital expenditure in the event the Company is in default on its debt obligations and has insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the Company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Company upon utilisation of the facility.

INTEREST RATES

The Company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 58.5 per cent (2017: 58.4 per cent) of the Company's borrowings were at rates indexed to inflation, 35.0 per cent (2017: 35.9 per cent) were at fixed rates and 6.5 per cent (2016: 5.7 per cent) were at floating rates. At 31 March 2018, the proportion of inflation debt to regulated capital value was 47.9 per cent.

PENSION FUNDING

On 31 March 2018, following a year of consultation with our employee representatives, employees and Pension Trustees, the defined benefit pension schemes for Anglian Water Group and Hartlepool Water were closed to future accruals for existing members. Around 25 per cent of our current employees are affected by this change and, overall, we have improved the pension offer for all our colleagues and will be spending more on pension contributions than in the past. We are also providing more flexibility around pension contributions and working patterns and the pension changes were part of a wider package of benefits that includes increases in life assurance, flexible medical benefits and opportunities to buy and sell holiday, all designed to reflect the diverse needs of our entire workforce. Members of our defined benefit schemes have their accumulated rights protected, and the Company has agreed a package of measures with the Pension Trustees that will ensure the schemes continue to be funded at appropriate levels.

At 31 March 2018, the closed defined benefit scheme had an IAS 19 accounting pension surplus (before deferred tax) of £9.1 million for all schemes, compared to a deficit of £75.6 million at 31 March 2017. This move from deficit to surplus is due largely to an improved performance of scheme assets during the year, together with forward inflation rates falling coupled with higher interest rates along the forward curves. The accounting surplus does not reflect the actuarial funding status of the pension schemes, which remain in a deficit position.

ANNUAL PERFORMANCE REPORT

Under Condition F of its Licence, Anglian Water is obliged to provide the Water Services Regulation Authority, Ofwat, with additional accounting information to that contained in the statutory financial statements. This information is presented in the Annual Performance Report, a copy of which is available on the Anglian Water Services website.

This Strategic Report was approved by the Board of Directors on 5 June 2018.

Claire Russell
Company Secretary
5 June 2018

GOVERNANCE

CONTENTS

CHAIRMAN'S INTRODUCTION

DEAR STAKEHOLDER

I present the Corporate Governance Report for the year ended 31 March 2018. Information on the Company's performance during the year can be found in the Strategic Report on pages 29 to 95 and the Company's financial statements start on page 140.

BOARD AND SHAREHOLDER COMMITMENTS TO IMPROVE TRANSPARENCY

As referenced in my Chairman's welcome on page 6, the industry as a whole is facing increased political, regulatory and reputational challenge.

As part of the Company's response to these challenges from Government and Ofwat, in March 2018 we announced a series of commitments to further improve transparency, trust and customer confidence. These measures included the removal of our redundant Cayman Islands company from our corporate structure, and an undertaking to have independent directors as a majority and not just the largest group of directors on our Board. We also continue to work with Ofwat to address the water sector's long-term resilience. Further information on these commitments can be found in the Governance Report and on pages 46 to 47 of the Strategic Report.

ANNUAL PERFORMANCE REPORT

This year the Company's Annual Performance Report is being published as a separate document. This report contains a statement from the Board, which focuses on how the Company has set its long-term ambitions and how it intends to meet the significant challenges facing the business and the region it serves.

BOARD APPOINTMENTS

During the year the Nomination Committee conducted a thorough search and selection process for a new Independent Non-Executive Director, recommending to the Board that Natalie Ceeney be appointed with effect from 14 May 2018. During the 2018/19 financial year the Nomination Committee will be conducting a search for an additional Independent Non-Executive Director.

RISK

During the year the Board has reviewed in detail the top-tier risk register. Detailed disclosures in relation to our risk management process are included in the Strategic Report on pages 74 to 88.

STRUCTURE OF THE REPORT

Over the following pages you will find the Directors' biographies (pages 98 to 101), the Corporate Governance Report (pages 102 to 109) and the Reports of the Audit, Nomination and Remuneration Committees. Information on our external Board evaluation can be found on page 108 and information on the Company's approach to diversity on page 114.

Stephen Billingham
Chairman
5 June 2018

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Stephen Billingham
Chairman of the Board
Chairman of the Nomination Committee
Member of the Audit Committee
Member of the Remuneration Committee

Stephen Billingham was appointed to the Board in November 2014 and became Chairman on 1 April 2015.

Stephen is also Chairman of Urenco Ltd and a Non-Executive Director and Chairman of the Audit Committee of Balfour Beatty plc.

Stephen has been Group Finance Director (CFO) of the FTSE 100 power generator British Energy Group plc, the Group Finance Director (CFO) of WS Atkins plc, the UK's largest engineering consultancy, Executive Chairman of Punch Taverns plc, the UK's second largest pub owner, and Chairman of the Royal Berkshire NHS Foundation Trust.

Earlier in his career he worked for BICC plc, British Telecom plc and Severn Trent plc.

Natalie Ceeney, CBE

Natalie Ceeney was appointed to the Board in May 2018.

Natalie is also currently a Non-Executive Director of Countrywide plc, and chairs the Board of Innovate Finance, an independent membership association that represents the UK's global FinTech community. She also leads an independent strategy consultancy practice.

Natalie has a strategy consultancy background at McKinsey & Company. Her executive career has included CEO roles at HM Courts & Tribunals Service, the Financial Ombudsman Service, the National Archives and as a member of HSBC's UK executive team. Natalie is a graduate of the University of Cambridge.

Dame Polly Courtice, DBE, LVO
Member of the Nomination Committee
Member of the Remuneration Committee

Dame Polly Courtice was appointed to the Board in April 2015.

Polly is Founder Director of the University of Cambridge Institute for Sustainability Leadership (CISL). She is a Director of the Judge Business School Executive Education Limited, a By-Fellow of Churchill College and an Honorary Fellow of Murray Edwards College in the University.

She is a Director of Jupiter Green Investment Trust and serves on the environmental/sustainability advisory boards for a number of leading companies.

In 2016, Polly was appointed Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 was appointed 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.

Steve Good
Member of the Audit Committee
Member of the Remuneration Committee
Member of the Nomination Committee

Steve Good was appointed to the Board in April 2015.

Steve is currently Chairman of Zotefoams plc, a Non-Executive Director and Chairman of the Remuneration Committee of Elementis plc and a Non-Executive Director of Dialight Plc.

Steve was Chief Executive of Low & Bonar PLC between September 2009 and September 2014. Prior to that role, he was Managing Director of its Technical Textiles division between 2006 and 2009, Director of New Business between 2005 and 2006, and Managing Director of its Plastics division between 2004 and 2005. Prior to joining Low & Bonar, he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is a Chartered Accountant.

John Hirst, CBE
Senior Independent Director
Chairman of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

John Hirst was appointed to the Board and as Chairman of the Audit Committee in April 2015. He was appointed as Senior Independent Non-Executive Director in January 2016.

John is a Non-Executive Director of Ultra Electronics Holdings plc (for which he is also Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees), Marsh UK plc (for which he is also a member of the Audit and Risk Committees) and Non-Executive Chairman of Hammerson plc Pension Fund. He is also a Non-Executive Director and Chairman of the Risk Committee for each of the following: Jelf Insurance Brokers Limited, Jelf Wellbeing Limited, Bluefin Insurance Services Limited and SMEI Group Limited. John is Chairman of SUDEP Action, IMIS Global Limited and White Square Chemical Inc as well as a director of Orsus Medical Limited, SME Insurance Services Limited and BBPS Limited. John is a Trustee of Epilepsy Research UK.

John was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc between 1998 and 2005. He joined Imperial Chemical Industries plc in 1979 where he held a number of roles over a 19-year period, including Group Treasurer and Chief Executive Officer of ICI Performance Chemicals. He also served as a Non-Executive Director and Chairman of the Audit Committee of Hammerson plc between 2004 and 2014. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

Paul Whittaker
Chairman of the Remuneration Committee
Member of the Nomination Committee

Paul Whittaker was appointed to the Board in October 2013 and became Chairman of the Remuneration Committee in January 2015. This role is one of a small number of advisory and consultancy activities he undertakes for infrastructure companies.

Paul became Director, UK Regulation at National Grid plc in April 2006. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the boards of the two main UK operating subsidiaries – National Grid Electricity Transmission plc and National Grid Gas plc. Immediately prior to that he was Group Head of Strategy.

Paul's career started in British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working in the USA, Egypt and Ireland. He joined National Grid when it merged with Lattice in 2002.

EXECUTIVE DIRECTORS

Peter Simpson
Chief Executive Officer of Anglian Water Group

Peter's career in the water industry has covered eight countries across three continents, including Regional Director for Europe and South America based in the Czech Republic, and Senior Vice President based in the USA.

He has been Chief Executive Officer of Anglian Water Group since October 2013, and was previously Managing Director of Anglian Water from January 2010 and Chief Operating Officer from 2004.

He was Chairman of Water UK from April 2012 to October 2013, and is a Past President of the Institute of Water.

Peter is a member of Cambridge University's 'Programme for Sustainability Leadership' Climate Change Leaders Group. This influences at a national, EU and global level to reduce carbon emissions, and to champion resource efficiency in water, energy and other natural resources.

Peter also works with Business in the Community (BITC) as Chair of the Wellbeing Leadership team (focused on improving employee wellbeing) and chairs the Water Taskforce as well as being part of the BITC Circular Economy Team.

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, as well as Companion of the Chartered Management Institute. He holds an MBA from Warwick Business School.

Scott Longhurst
Managing Director, Finance and Non-Regulated Business

Scott Longhurst was appointed Group Finance Director of Anglian Water Group in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's commercial businesses in addition to his financial responsibilities. Prior to joining Anglian Water Group, he spent most of his career with Shell and TXU Corporation.

Scott moved from Shell in 2000 to TXU and, from early 2001, was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company. In February 2004, he was appointed Group Controller and Chief Accounting Officer of TXU Corporation.

Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell encompassing corporate, operating company and joint venture activities across Europe, the Far East and the Middle East.

Scott is a Fellow of the Institute of Chartered Accountants in England and Wales and a founding member of HRH The Prince of Wales's Accounting for Sustainability CFO Leadership Network. He is also a Non-Executive Director and chair of the audit committee of Infinis Energy Management Limited and a prior Non-Executive Director of Candover Investments Plc.

Chris Newsome, OBE
Director of Asset Management

Chris Newsome is Director of Asset Management at Anglian Water and was appointed in September 2004.

Chris is a civil engineer by profession and has spent the vast majority of his career within the water industry, planning for, designing and delivering capital programmes of work and managing the asset base.

Chris is Chairman of both @one Alliance and UK Water Industry Research Ltd. He is also a Director and President of the Institute of Asset Management (IAM). He is also a member of the Government's Green Construction Board and is Chairman of the Infrastructure Group.

Chris is a Fellow of both the Institution of Civil Engineers and of the IAM, and a member of the Chartered Institution of Water and Environmental Management. In 2017, Chris received the Order of the British Empire (OBE) in the Queen's New Year's Honours list in recognition of his services to civil engineering and carbon reduction.

Jean Spencer
Director of Strategic Growth and Resilience

Jean Spencer was appointed as Strategic Growth and Resilience Director on 1 April 2017, having previously held the role of Regulation Director since May 2004.

Prior to joining Anglian Water, Jean held a number of positions with Yorkshire Water and Kelda. Jean is a Trustee on the Council of the British Trust for Ornithology. She is a qualified Chartered Accountant by training.

NON-EXECUTIVE DIRECTORS

James Bryce
Member of the Nomination Committee
Member of the Remuneration Committee

James Bryce was appointed as a Non-Executive Director in December 2014. James works for CPP Investment Board's London office where he is a managing director within CPPIB's Portfolio Value Creation team. He was appointed an alternate Non-Executive Director of Anglian Water Group Limited in December 2014 and as a Non-Executive Director in May 2018.

Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (the private equity arm of RBS) where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBS, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University.

Niall Mills
Member of the Nomination Committee
Member of the Remuneration Committee

Niall Mills was appointed as a Non-Executive Director in April 2014. Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall is also a Director of Electricity North West and of several other Fund Investments across Europe. He has been a Non-Executive Director of Anglian Water Group Limited since September 2008. He is a Fellow of the Institution of Civil Engineers and holds an MBA from the London Business School and an Institute of Directors Diploma in Company Directorship.

Duncan Symonds

Duncan Symonds was appointed as a Non-Executive Director on 1 November 2016. Duncan is the Director of Asset Management for the IFM Investors European Infrastructure team. He also represents IFM Investors as a Director on the Board of Global Infraco S.a.r.l. and Airports Group Europe S.a.r.l., Luxpoort S.a.r.l., and was appointed as an alternate Non-Executive Director of Anglian Water Group Limited in July 2016.

Duncan is a chartered member of the Institution of Civil Engineers with over 20 years' experience of the construction industry. He holds an MBA from the Cranfield School of Management.

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

PRINCIPLES OF CORPORATE GOVERNANCE

The Company and the Group are committed to high standards of corporate governance. In January 2014, Ofwat published its Board leadership, transparency and governance principles (the Principles). The Principles are considered by Ofwat to represent the minimum standards for Board leadership, transparency and governance for companies operating in the water sector. In April 2018, Ofwat wrote to companies stating that it is considering whether the Principles should be embedded into licences. Currently, however, Ofwat expects Boards to take the lead in setting out how they meet or exceed the Principles.

In December 2013, we published the Anglian Water Services 2014 Corporate Governance Code (2014 Code) in response to Ofwat's consultation in respect of the Principles.

In September 2014, the Financial and Reporting Council (FRC) published a revised version of the UK Corporate Governance Code (UK Code). We therefore updated our 2014 Code to reflect certain changes in the UK Code (relating primarily to Remuneration Policy and Risk Management and Internal Control). The Anglian Water Services Corporate Governance Code (2015 Revision) came into effect on 1 April 2015 (2015 Code).

A copy of both our 2014 Code and the 2015 Code can be found on the Company's website. The Company Secretary keeps compliance with the 2015 Code under review and any changes recommended are subject to approval by the Board.

In April 2016, the FRC published the latest version of the UK Code, which applies to listed companies with accounting periods beginning on or after 17 June 2016. Due to the limited nature of the changes, the Board has not revised the 2015 Code. However, during the current financial year, the Company proposes to review the Audit Committee's Terms of Reference with a view to incorporating some of the changes. It is also expected that during the current financial year the Board will review the requirements for the updated UK Code, which is expected to apply for accounting periods beginning on or after 1 January 2019.

CORPORATE GOVERNANCE ARRANGEMENTS RESULTING FROM SECURITISATION

In 2002, a securitised structure was put in place. As part of these arrangements, the Company entered into a Common Terms Agreement (CTA) with its debt investors. The CTA sets out the terms and conditions of the Company's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN. The CTA restricts amendments to the Articles of Association of the Company without obtaining prior consent from the Security Trustee. Additionally, as a result of provisions within the CTA, the Directors do not have the power to allot or repurchase the Company's shares.

The corporate governance measures put in place in 2002 are designed to ensure that the Company has the means to conduct its regulated business separately from other companies within the Anglian Water Group, and that all dealings between other companies within the Anglian Water Group and the Company are on an arm's-length basis.

A restructuring exercise was carried out in May 2018, as a result of which the previous parent of the Company, Anglian Water Services Overseas Holdings Limited (AWSOH) – a Cayman Islands registered company – was replaced with a new UK-registered holding company, Anglian Water Services UK Parent Co Limited (AWSUK). This restructuring exercise was taken to enhance the Company's transparency and to simplify its financial structures. See pages 46 to 47 for further information.

AWSUK owns the entire issued share capital of the Company (10 million ordinary £1 shares), and has assumed all of the obligations of AWSOH under the CTA.

Under the CTA, and following the restructuring referred to above, the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG):

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

AWSOH has been removed from the AWSFG and will be liquidated in due course.

Under the CTA, the Company is required to maintain at least three Independent Non-Executive Directors, except for periods where a temporary vacancy exists. In March 2018, the Company announced that it would, in due course, change its Articles of Association such that the Board comprises a majority of Independent Non-Executive Directors. It is expected that this change will be made during the current financial year. No Director may vote on any contract or arrangement between the Company and any other Anglian Water Group Company if he/she is also a Director of that Anglian Water Group company. In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board.

THE BOARD

The Board's aim is to ensure the effective delivery of the Company's strategy. The Board has identified six strategic priorities for AMP6, which are:

1. influencing and responding to market reform and regulatory change
2. responding to changing customer influence and power
3. driving business efficiency and Outcome Delivery Incentive (ODI) performance
4. securing long-term water resources and resilience
5. managing quality and environment risks
6. developing our organisation and culture.

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of our strategic priorities. The Board has a formal governance matrix, which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues. A list of matters reserved to the Board appears on the Company's website. This document also shows which decisions are reserved to the Board of Anglian Water Group Limited. They include:

- material changes to the Company's strategy
- material changes to the annual operating and capital expenditure budget
- extension of the Company's activities into new business or geographic areas
- any decision to cease to operate all or any material part of the Company's business
- material changes relating to the Company's capital structure including reduction of capital, share issues and share buy backs
- approval of dividend policy
- approval of accounting and treasury policy and practices
- approval of procurement strategy for award of new contracts by the Company where the contract value (over the life of the contract) is expected to be in excess of £30 million
- approval of remuneration policy
- approval of the total pay received by each Director
- approval of the appointment of the Company's auditors
- agreeing to refer any matter (including any proposed Licence modification or Final Determination) to the Competition and Markets Authority.

One of Ofwat's Principles is that a regulated business must act as if it is 'a separate public listed company'. Companies that are governed by the Listing Rules must obtain shareholder approval before concluding a material transaction (materiality being determined by reference to the Class tests set out in Rule 10). Such transactions are likely to result from a major change in strategy and might include (for example) the acquisition of another undertaker (or a part thereof). The Board therefore considers it to be reasonable to ask the ultimate owners of the Company to approve material changes in strategy given that this power is broadly analogous to the approval power of shareholders in a listed company. Where a material change in strategy is contemplated, the role of the Board is to consider the relevant proposal and to make a recommendation to the Board of Anglian Water Group Limited for approval. In formulating their recommendation, the Directors of the Company are mindful of their duty under the Companies Act 2006 to act in the way that is likely to promote the success of the Company (which requires Directors to have regard to the likely consequences of any decision in the long term).

Matters delegated to management are set out in a Scheme of Delegation. Typically, these matters comprise financial approvals at levels that are not considered by the Board to be material, as well as routine operational decisions and minor regulatory approvals.

BOARD MEMBERSHIP

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

Stephen Billingham
(Non-Executive Chairman)

Peter Simpson
(Chief Executive Officer)

Scott Longhurst
(Managing Director, Finance and Non-Regulated Business)

Chris Newsome
(Director of Asset Management)

Jean Spencer
(Director of Strategic Growth and Resilience)

Natalie Ceeney
(Independent Non-Executive Director, appointed 14 May 2018)

Dame Polly Courtice
(Independent Non-Executive Director)

Steve Good
(Independent Non-Executive Director)

John Hirst
(Senior Independent Non-Executive Director)

Paul Whittaker
(Independent Non-Executive Director)

James Bryce
(Non-Executive Director)

Niall Mills
(Non-Executive Director)

Duncan Symonds
(Non-Executive Director)

No Directors resigned from the Board during the year.

At 31 March 2018, in addition to the Chairman, Stephen Billingham, there were four Executive Directors, four Independent Non-Executive Directors and three Non-Executive Directors. Natalie Ceeney was appointed as an additional Independent Non-Executive Director on 14 May 2018. None of the Directors has a formally approved alternate.

The Company is required under the terms of its Licence to ensure that the composition of the Board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the Company. Both the Licence and the CTA require that the Board of the Company must contain no fewer than three Independent Non-Executive Directors. The Board is satisfied that the composition of the Board is such that there is an appropriate balance of skills, experience, independence and knowledge of the Company. The Board also considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the Board's decision taking. As noted above, the Company intends to revise the composition of its Board such that the Board comprises a majority of Independent Non-Executive Directors. Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 98 to 101.

The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Company's strategy and performance.

Stephen Billingham is also Chairman of the Company's ultimate parent, Anglian Water Group Limited. The 2015 Code does not prohibit chairmanship of other companies in the Group and on appointment as Chairman on 1 April 2015, the Board considered him to be independent in judgement and character, notwithstanding the existence of his other directorships.

Stephen Billingham remains independent of investors and management and has no relationship with any of the Company's shareholders, except for his chairmanship of Anglian Water Group Limited. None of the other situations listed in provision 29 of the 2015 Code, which might otherwise call into question his independence, apply. Stephen Billingham is a Director of Balfour Beatty plc, which is a supplier of services to the Company. However, the services provided are not material for either company and he has no direct or indirect involvement in the contracts.

The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2018. The Board concluded that all the Independent Non-Executive Directors remain independent of management and not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2015 Code. The Board concluded that Natalie Ceeney was independent on her appointment.

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 on the Company's website.

Where Directors have concerns that cannot be resolved about the running of the Company or a proposed action, these would be recorded in the Board minutes, but no such concerns have been raised.

ROLES AND RESPONSIBILITIES

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) appears on the Company's website. 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 98. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

A document setting out the role and duties of the Senior Independent Non-Executive Director has been agreed by the Board and appears on the Company's website.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender). Non-Executive appointees are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table below.

Board composition and roles

Chairman	Stephen Billingham	Responsible for leading and managing the Board, its effectiveness and governance. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
Chief Executive Officer	Peter Simpson	Responsible for the leadership and day-to-day functioning of the Company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.
Managing Director, Finance and Non-Regulated Business	Scott Longhurst	Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the Company. Responsible for the Group's non-regulated business.
Independent Non-Executive Directors	Natalie Ceeney Dame Polly Courtice Steve Good Paul Whittaker	Responsible for providing constructive challenge and bringing independence to the Board and its decision-making process. Particularly: • bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management • scrutinising and challenging the performance of the Company's business • assessing risk and the integrity of the financial information and controls.
Senior Independent Non-Executive Director	John Hirst	Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the Company if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.
Non-Executive Directors	James Bryce Niall Mills Duncan Symonds	Responsible for providing constructive challenge to the Board's decision-making processes.

BOARD MEETINGS

The Board held eight scheduled meetings during the year ended 31 March 2018. In addition, the Board held two scheduled meetings between 31 March 2018 and the date of signing this report. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairmen of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by those respective committees since the previous Board meeting.

BOARD COMMITTEES

The Board has an Audit Committee, a Nomination Committee and a Remuneration Committee. Final decisions on issues considered by each of these Committees are made by the Board.

AUDIT COMMITTEE

Details of the terms of reference of the Audit Committee, its membership and activities during the year are contained in the Audit Committee Report on pages 110 to 113.

NOMINATION COMMITTEE

Details of the terms of reference of the Nomination Committee, its membership and activities during the year are contained in the Nomination Committee Report on pages 114 to 115.

REMUNERATION COMMITTEE

Details of the terms of reference of the Remuneration Committee, its membership, activities, the Company's remuneration policy and the remuneration paid to Directors during the year are contained in the Remuneration Report on pages 116 to 135.

BOARD AND COMMITTEE ATTENDANCE

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2018 is shown in the table below.

During the year, 14 other Board meetings were held, some at short notice to deal with the following matters: delegating authority to the Treasury function; a prospectus renewal; annual renewal of the liquidity facility; a Green Bond issue; approving a letter of credit; three related to a routine quarterly interim dividend linked to the AWSFG financing arrangements; removal of an inter-company loan and associated dividends payments (as part of the restructuring

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham	8/8	3/3	4/4	6/6
James Bryce	7/8	–	3/4	5/6
Dame Polly Courtice	8/8	–	4/4	6/6
Steve Good	8/8	3/3	3/4	6/6
John Hirst	8/8	3/3	3/4	6/6
Scott Longhurst*	8/8	3/3	2/4	5/6
Niall Mills	6/8	–	2/4	5/6
Chris Newsome	7/8	–	–	–
Peter Simpson*	8/8	3/3	4/4	6/6
Jean Spencer	8/8	–	–	–
Duncan Symonds**	8/8	–	4/4	5/6
Paul Whittaker	7/8	–	4/4	5/6

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

** Not a member of the Nomination or Remuneration Committee but attended in his capacity as Manoj Mehta's alternate. Manoj Mehta is also a member of the Nomination and Remuneration Committees but not appointed to the Board of the Company. The Committee meetings are usually either attended by Mr Mehta or his alternate appointment on the AWG Board, Duncan Symonds.

exercise referred to earlier); the appointment of a corporate representative to vote at a meeting of Market Operator Services Limited; RCV allocation in respect of bioresources; a Director's letter of appointment; formally responding to a communication to all water companies from the chairman of Ofwat; and the provision of a statutory certificate to Ofcom, pursuant to which the Company is permitted to install electronic equipment in the public highway.

Since 31 March 2018, two further scheduled Board meetings have been held, which all Directors attended.

A further short notice meeting of the Nomination Committee took place on 28 April 2018, which Steve Good, Manoj Mehta and Niall Mills were unable to attend.

Further meetings of the Audit Committee and Remuneration Committee were held on 21 May 2018. All members attended these meetings other than James Bryce who was unable to attend the Remuneration Committee meeting.

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.

INFORMATION AND PROFESSIONAL DEVELOPMENT

The approach the Company took to Director training and professional development for the year ended 31 March 2018, was as follows:

- training sessions were generally focused on topics that were unique to the sector
- where all employees received training on a topic (for example, the General Data Protection Regulations (GDPR)) the Board also received training
- training was delivered by the business (save in exceptional cases where it was appropriate to bring in an external expert)
- training was run in tandem with scheduled Board meetings.

Training topics covered during the year included:

- PR19 regulatory overview
- resilience – with a specific focus on water resources
- direct procurement
- the role of the Customer Engagement Forum
- the role of the Consumer Council for Water
- bioresources
- GDPR
- developments in corporate governance.

The Company also offers to fund participation on externally provided training courses. All Board members are entitled to receive, at the Company's expense, independent professional advice on any matters relating to their responsibilities as Directors.

Periodically, the Board visits different business locations to enable the Directors to meet with local management and employees, and to update and maintain their knowledge of and familiarity with the Company's operations. During the year, the Board visited Cotton Valley Water Recycling Centre to see operations in action and to meet with staff.

The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties.

The Company Secretary is available to all Directors and is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

New Directors undergo an induction programme on appointment, as part of which they receive a full background information pack. This pack includes, among other things, business plans, the Annual Integrated Report for the Company, a briefing note and a Board paper on Directors' duties, conflicts and declarations of interest, the Company's articles of association, a Group structure chart and the Love Every Drop manifesto.

On 23 April 2018, Natalie Ceeney attended a pre-appointment meeting with representatives of Ofwat to discuss various matters, such as: what she envisaged her role being on the board of a regulated company; her understanding of Ofwat's strategy and board leadership, transparency and governance principles; issues affecting the Company past, present and future; and her expectations for her induction programme.

In addition, Ms Ceeney visited operational sites, including a water treatment works and a water recycling centre. She also received briefings from Executive Directors and a number of senior managers covering, among other matters:

- the business and strategy of the Company
- her legal and regulatory responsibilities as a Director of the Company
- key risks managed by the Company.

BOARD EVALUATION

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. A thorough external evaluation of the Board was conducted during the year facilitated by Bernice Dunsmuir of Constal Limited, under the Direction of the Chairman. Constal has no other connection to the Company. 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 structure and processes around Board meetings; and Board composition and structure. Ms Dunsmuir prepared a report, which she presented to the Board at its meeting in March 2018 for consideration and debate.

No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the review and the Chairman confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board. During the meeting the Board agreed a number of actions, as a result of the Board evaluation, which included:

- reviewing the structure of Board meetings to ensure that sufficient time is allowed for debating strategic matters
- receiving a regular briefing from one of the Directors who is also on the Board of Anglian Water Group Limited to ensure that the Board has sufficient visibility of the issues being considered by shareholders
- refining Board papers to include a short summary/commentary to prepare members for the discussions.

Separately, the Non-Executive Directors, under the leadership of the Senior Independent Non-Executive Director and with input from the Executive Directors, conducted an evaluation of the Chairman. Feedback was given to the Chairman by the Senior Independent Non-Executive Director.

RELATIONS WITH SHAREHOLDERS

In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, while having due regard to the interests of other stakeholders, including (but not limited to) customers, employees and suppliers. Following proposals from Ofwat, the Company has offered to work with Ofwat to consider how a public interest duty might be enshrined within the Licence of all companies in the sector.

The Company maintains a website at **www.anglianwater.co.uk**, which is regularly updated and contains information about the Company's operations.

RISK MANAGEMENT AND INTERNAL CONTROL

Detailed disclosure in relation to the Company's approach to managing risk is included in the Strategic Report on pages 74 to 88 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 2017/18 financial year, 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 are 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 2018 and no significant failings or weaknesses were identified from this review
- a review by an independent assurance provider of the information that Ofwat requires the Company to publish and other key corporate data.

CORPORATE GOVERNANCE STATEMENT

As noted above, the Company has elected to comply with the 2015 Code on a voluntary basis. The Board confirms that it has complied with the 2015 Code throughout the year under review and remains compliant as at the date of this report.

This report was approved by the Board of Directors on 5 June 2018.

Claire Russell
Company Secretary
5 June 2018

AUDIT COMMITTEE REPORT

CHAIRMAN
John Hirst

OTHER MEMBERS
Stephen Billingham, Steve Good

MEETINGS
Three

MEETINGS ALSO REGULARLY ATTENDED BY:
Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Peter Simpson, Chief Executive Officer; members of Anglian Water Group Limited Audit Committee; representatives of the internal and external auditors; and Claire Russell, Company Secretary.

DIRECTORS' BIOGRAPHIES ARE AVAILABLE ON PAGES 98 TO 101.

Available to view on the Company's website (www.anglianwater.co.uk):
Audit Committee's terms of reference
Whistleblowing Policy

ROLE OF THE COMMITTEE

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes, which exist to identify, assess, mitigate and manage risk. Internal audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Committee's primary functions are to:

- monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- review financial statements and significant financial returns to regulators
- review the integrity of the Company's systems of internal control
- consider the effectiveness of the risk management systems and whether they provide reasonable levels of mitigation against material misstatement and losses
- monitor and review the effectiveness of the internal audit function
- oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- review and approve the annual audit plan
- monitor the provision of non-audit services by the external auditor.

MEMBERSHIP AND ATTENDANCE

John Hirst is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers. He was formerly Group Treasurer of ICI plc and Chairman of the Audit Committee at Hammerson plc, and is therefore considered by the Board to have relevant financial experience. Both Stephen Billingham and Steve Good are considered to have competence relevant to the sector in which the Company operates.

Representatives from the external auditor and internal auditor also attended all or part of the Committee's meetings. Members of the Committee also met separately with representatives of the external auditor and internal auditor without management being present. The Company Secretary is Secretary to the Audit Committee. From time to time, business unit representatives are invited to give presentations to the Audit Committee on top-tier risk items that fall under their remit.

MAIN ACTIVITIES IN THE YEAR

The key areas of Committee activity during the year include the following:

Financial reporting

- Reviewed the Interim and Preliminary results, draft Annual Integrated Report for the Company for the financial year ending 31 March 2017 and the associated going concern statements.
- Reviewed key issues and areas of judgement in relation to the financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, retirement benefit provision, treasury and tax matters).
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment.
- Assessed financial resilience by reviewing the Business Viability Statement and the supporting scenarios for stress testing.

External audit

- Considered reports by the external auditor on its audit and its review of the financial statements.
- Received the external auditor's report on the internal control environment.
- Reviewed the external audit strategy.

Internal audit

- Agreed the scope of the internal audit plan for 2018/19.
- Reviewed internal audit reports.

Other

- Considered material litigation.

All business discussed by the Committee during the course of the year was reported to the Board.

RISK MANAGEMENT AND INTERNAL CONTROL

Detailed disclosure around the Company's approach to managing risk is included in the Strategic Report on pages 74 to 88 followed by details of the Company's principal risks and an assessment of the future viability of the business.

The Audit Committee reviews the effectiveness of the Company's risk management and internal control systems throughout the year to ensure its adequacy. This is achieved through a number of activities as noted below:

- Risks are managed using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks, to document the existing controls in place to manage these risks, to ensure mitigation plans are established and monitored, and to establish clear ownership of each of the risks.
- The top-tier risk register is regularly reviewed by the Board and the Management Board.
- The Audit Committee reviews and approves the internal auditor's risk-based internal audit programme each year, with regular meetings to assess progress and reprioritise audit assignments 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 subsequent 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 audit and presented to the Audit Committee.

WHISTLEBLOWING PROGRAMME

The Group has a whistleblowing policy and programme in all its operations whereby employees can, in confidence, report on matters where they feel malpractice is taking place or if health and safety standards are being compromised. Additional areas addressed by this procedure include criminal activities, improper or unethical behaviour, and damage to the environment.

The programme encourages employees to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline or confidential email address operated by the internal auditor. The internal auditor maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to a designated person (Finance Director, Group Director of People, Managing Director, Audit Committee or internal audit representative).

Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by internal audit of each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released.

This policy and related procedures and any allegations made via the process are monitored by the Audit Committee.

INTERNAL AUDIT

The provision of internal audit services is outsourced to PricewaterhouseCoopers (PwC). PwC was appointed by the Company on 1 August 2016 for a four-year term following a competitive tendering process.

In March 2017, the Committee approved the internal audit plan for 2017/18 and the plan for 2018/19 was approved at its meeting on 21 March 2018. 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 their plan based on the Group's organisational objectives, priorities and the risks that may prevent those objectives from being achieved. The plan is assessed on the basis of risk but also the nature of the review for particular areas that can either be carried out on an annual, rotational or value-enhancing basis.

During the year, the Committee received regular reports from the internal auditor, which set out its view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

Internal audits carried out during the year included: cost capture, combined heat and power, data protection, water resource management, critical suppliers, PR19 governance, Common Terms Agreement compliance and market reform equivalence.

The Audit Committee actively contributes to the development of the annual internal audit plan, and regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected quality. The Chairman of the Audit Committee also has an annual call with the Independent Senior Relationship Partner at PwC (currently John Maitland). On this basis the Audit Committee considers the internal audit process to be effective.

INDEPENDENCE OF EXTERNAL AUDITORS

The effectiveness of the external audit process is principally measured by the quality and timeliness of the annual reporting to the Audit Committee. In addition, the Chairman of the Audit Committee meets annually with the Independent Senior Relationship Partner (currently Mark Mullins), independent of the external Audit team, to discuss performance and effectiveness issues.

To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee will annually review an overview of, and the value of, all non-audit-related work conducted by Deloitte on behalf of the Company. Further information on non-audit services is detailed below. To ensure the auditor's independence is safeguarded, lead audit partners rotate every five years. The current lead audit partner is James Leigh. The Committee considers the relationship the Company has with Deloitte annually, and for the year ended 31 March 2018, the Committee was satisfied with the performance, objectivity and independence of Deloitte as the external auditor.

NON-AUDIT SERVICES

A key factor that may impair the external auditor's independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Committee and must be robustly justified and, if appropriate, tendered before it is approved.

The fees paid to the external auditor during the year are set out in note 5 to the financial statements on page 161. The non-audit fees in the year to 31 March 2018 were £0.3 million and predominantly related to consultancy services connected with supporting management in the development of the AMP7 strategy for asset management and operational activities as well as providing treasury accounting advice. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors. The Company has a clear policy for all non-audit work conducted by the external auditor, and the Committee is confident that all such non-audit work carried out by the external auditor during the financial year complied with this policy.

COMMITTEE PERFORMANCE AND EFFECTIVENESS

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 108. No material shortcomings in the operation of the Committee were highlighted.

ANNUAL INTEGRATED REPORT

The Audit Committee considers the Annual Integrated Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

SIGNIFICANT ISSUES IN RELATION TO THE FINANCIAL STATEMENTS

The Audit Committee considers a range of significant issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management has to make in preparing the financial statements. As such, they are presented to the Audit Committee in the form of a report prepared by management called *Key Issues and Areas of Judgement Report*. Further details of these accounting judgements and estimates are set out in the key assumptions and significant judgement note (note 2) in the financial statements on page 159.

- **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 2018, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the end of the period and represents approximately 39 per cent of measured household revenue. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption, and the Company is required to disclose the accuracy of the accrual in its separate Annual Performance Report. The value of the measured income accrual is disclosed in note 15 of the financial statements.
- **Revenue recognition – wholesale charges to water retailer business:** with effect from 1 April 2017, the Company has provided wholesale water and water recycling services to the water retail businesses rather than providing services directly to the end non-household customer. The Committee considered the appropriate method for calculating the appropriate amount to recognise in the financial statements.
- **Bad debt provision:** the Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience. Management calculates bad debt provision based on assumptions made on the forecast collectability, considering whether debtors are current customers, the age of the debt and whether a charging order has been secured. Further information can be found in note 15 of the financial statements.
- **Derivative accounting:** as at 31 March 2018, the Group held a number of derivatives and the Committee considered the accounting policy for derivative valuations, application of hedge accounting and credit risk adjustments. Further information can be found in note 18 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 note 1k of the financial statements.
- **Recoverability of ACT deferred tax asset:** the Committee considered whether it was appropriate to continue recognising a deferred tax asset in respect of unclaimed Advance Corporation Tax (ACT). More information is available in note 7 of the financial statements.
- **New accounting standards:** the Committee considered the financial impact of three new accounting standards: IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and 15 came into effect on 1 April 2018 and IFRS 16 comes into effect on 1 April 2019. Further information can be found in note 1w of the financial statements.

This report was approved by the Board of Directors on 5 June 2018.

John Hirst
Chairman of the Audit Committee
5 June 2018

NOMINATION COMMITTEE REPORT

CHAIRMAN
Stephen Billingham

OTHER MEMBERS
James Bryce, Dame Polly Courtice, Steve Good, John Hirst, Manoj Mehta*, Niall Mills, Paul Whittaker

MEETINGS
Four

MEETINGS ALSO REGULARLY ATTENDED BY:
Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director, Finance and Non-Regulated Business; Susannah Clements (who succeeded Fiona Guthrie partway through the year), Group Director of People; and Claire Russell, Company Secretary.

COMPOSITION OF THE COMMITTEE
*Manoj Mehta is an investor-appointed member of the Nomination Committee, but is not a member of the Board. Meetings are usually attended by either Mr Mehta or his alternate on the AWG Board, Duncan Symonds.

DIRECTORS' BIOGRAPHIES ARE AVAILABLE ON PAGES 98 TO 101.

Available to view on the Company's website (www.anglianwater.co.uk):
Nomination Committee's terms of reference
Diversity Policy

ROLE OF THE COMMITTEE
The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. The duties of the Nomination Committee include the following:

- annually reviewing the structure, size and composition of the Board, and making recommendations to the Board with regard to any changes
- giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in future
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete 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

Diversity
The Committee agreed a company-wide diversity policy and Diversity Action Plan in 2014. This action plan contains a range of actions and targets around the areas of gender, ethnicity, disability and age and includes targets in respect of these areas with the aim of achieving these targets by 2020. During the year, the Company broadened the scope of its ambitions to focus on inclusion as well as diversity and created its Diversity & Inclusion Strategy. Its objective is to create a working environment that values difference: where colleagues from all backgrounds can give their best, are treated fairly, valued for their contributions, and where they can develop their careers. Under the Strategy there is a focus on the following four key areas:

Diverse demographics: to ensure that the Company is representative of the communities it serves.

Inclusion: to ensure that all employees are respected, treated fairly and valued for their individuality.

Individual action: to take every opportunity to improve diversity and inclusion in the way the Company works.

Leadership: the Company's leaders will ensure all employees are aware of good practice and how the Company values diversity and inclusion.

At its meeting in March 2018, the Committee reviewed the progress in relation to the 2014 Diversity Action Plan. During the financial year, the Company achieved its target in respect of increasing the number of women in management roles, including the number of women in STEM (science, technology, engineering and mathematics) roles. Some progress has also been made in respect of the ethnicity, age and disability targets, but progress is slow. In order to improve diversity and inclusion, the Company has taken a number of actions including increasing engagement with schools, increasing use of social media and working with the Armed Forces Covenant Employer Recognition Scheme. The Company works hard to achieve a genuine diversity of employees and continues to refocus its efforts accordingly.

At Board level, the Committee has not set a specific female Board member quota. Further information on gender diversity can be found on page 50.

The Company is similarly committed to appointing the best available person to any role within the Company regardless of gender. Further information on gender diversity can be found on page 50.

Succession planning

The Committee also keeps under review the development, succession planning and talent pool for the Management Board and other senior roles to identify both talent strengths and gaps. As part of its commitment to developing its senior managers, the Company continues to work in collaboration with Lane 4 Management Group Limited and Loughborough University Business School to deliver the Transforming our Leadership (TOL) programme. The TOL programme has been designed to develop the skills and behaviours necessary to effectively deliver results and drive change.

NON-EXECUTIVE DIRECTOR APPOINTMENTS

On 31 March 2018, the initial three-year term of appointment in respect of Dame Polly Courtice, Steve Good and John Hirst expired. At its meeting in January 2018, the Committee recommended to the Board that both Dame Polly Courtice and John Hirst be appointed for a further three-year term expiring on 31 March 2021. Steve Good indicated to the Board that he did not wish to extend his appointment as an Independent Non-Executive Director for a further three-year period. However, he agreed to continue as a member of the Board until 31 October 2018. In anticipation of Steve Good's departure later this year, the Committee reviewed the expertise of the incumbent Independent Non-Executive Directors and also detailed the essential and desirable characteristics of a potential new appointment. A thorough search and selection process for a new Independent Non-Executive Director was conducted with the assistance of the Zygos Partnership (a specialist board advisory firm, which was purchased by Russell Reynolds Associates in December 2017. Neither the Zygos Partnership nor Russell Reynolds Associates have any other connection with the Company). Having defined the requisite skills for new Board appointments, the Committee reviewed a long list of potential candidates, at its meeting in January 2018. Following interviews with shortlisted candidates, the Committee recommended to the Board that it should appoint Natalie Ceeney as an Independent Non-Executive Director, with effect from 14 May 2018.

In March 2018, the Company announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. As part of this, the Company has committed to change the composition of the Board so that Independent Non-Executive Directors are in the majority, not just the largest group. The Board is therefore conducting a further search for an additional Independent Non-Executive Director with a view to making an appointment later in the year, which, together with other changes to Directors on the Board, will allow the Company to fulfil its commitment.

COMMITTEE PERFORMANCE AND EFFECTIVENESS

An annual review of the Committee's performance was undertaken as part of the external Board evaluation process, as detailed on page 108. No material shortcomings in the operation of the Committee were highlighted.

All business discussed by the Committee during the course of the year was reported to the Board.

This report was approved by the Board of Directors on 5 June 2018.

Stephen Billingham
Chairman of the Nomination Committee
5 June 2018

REMUNERATION REPORT

CHAIRMAN
Paul Whittaker

OTHER MEMBERS
Stephen Billingham, James Bryce, Dame Polly Courtice, Steve Good, John Hirst, Manoj Mehta*, Niall Mills

MEETINGS
Six

MEETINGS ALSO REGULARLY ATTENDED BY:
Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director, Finance and Non-Regulated Business; Susannah Clements (who succeeded Fiona Guthrie partway through the year), Group Director of People; and Claire Russell, Company Secretary.

COMPOSITION OF THE COMMITTEE
*Manoj Mehta is an investor-appointed member of the Remuneration Committee, but is not a member of the Board. Meetings are usually attended by either Mr Mehta or his alternate on the AWG Board, Duncan Symonds.

DIRECTORS' BIOGRAPHIES ARE AVAILABLE ON PAGES 98 TO 101.

Available to view on the Company's website (www.anglianwater.co.uk):
Remuneration Committee's 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 2018 and the policy for 2018/19.

COMPANY PERFORMANCE IN 2017/18

This is the third year of AMP6, which began with customers benefiting from the greatest reduction in bills of all water and sewerage companies as a result of efficiencies made during AMP5. This has been coupled with a business plan focused on what customers said was important to them, including customer service, reducing interruptions to supply and reducing leakage.

2017/18 has been another year of very strong performance, exceeding targets in a number of key areas. Almost all Outcome Delivery Incentives (ODIs) have met their base targets for the year, with nine achieving maximum as a result of exceptional performance against targets that deliver for customers as well as for the business. Performance in major ODIs, such as Interruptions to Supply, has shown strong improvements against the previous AMP.

As well as avoiding significant 'in year' penalties, rewards were delivered against those ODIs that were measured in the period. Stretch performance was also achieved in the year against a number of important ODIs such as Service Incentive Mechanism (SIM), which measures customer service, and Interruptions to Supply, where rewards are calculated over a longer period. For SIM, the strong performance has ensured a first-place finish across the industry in 2017/18. This success has been achieved in the wake of a challenging AMP6 determination requiring a step change in performance to meet higher customer expectations, new ODI and SIM targets, and complex regulatory outputs, while absorbing unfunded cost pressures.

It should be noted that, with the exception of leakage, rewards from the ODIs come in AMP7 and therefore any reward earned this year could be offset by poorer years, across the last two years of the AMP.

REMUNERATION OUTCOMES IN 2017/18

At the start of the year, the Board set targets that focused management on driving improvements in efficiency, across the ODIs and ensuring financial returns.

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on the key financial metrics, just below stretch on the Totex Delivery Index (TDI), and between base and stretch targets on ODIs.

As a result of this performance, and the personal performance of each individual Executive Director, annual bonus payments for 2017/18 were between 93.1 per cent and 94.3 per cent of maximum.

On 31 March 2018, the performance period ended for long-term incentive awards granted in 2015. These awards were based on performance from 1 April 2015 to 31 March 2018 against two performance conditions – achievement of targeted average rate of return and achievement of targeted savings against totex allowed in the Final Determination over the performance period. The Committee determined that the Company had achieved the stretch target on both measures. As a result of this performance, the percentage of award vesting is 100 per cent.

OTHER KEY DECISIONS

The Committee carried out a full review of executive incentive design in advance of the year beginning April 2018. Following the review, the Committee agreed that there would be changes to the design of the long-term incentive plan (LTIP) to ensure clear alignment between the remuneration for Executive Directors and key business outcomes. Threshold performance requirements have been introduced that must be achieved prior to the assessment of any other performance conditions. These include Serviceability, Customer Service, Environmental Performance, Water Quality, and Health and Safety. These measures were selected as they are felt to best demonstrate the Company's commitment to deliver exceptional customer service and operational performance.

In addition, the three-year performance period has been split into the first performance period (April 2018 to March 2020) and the second performance period (April 2020 to March 2021) to reflect different weightings of the two performance measures across the period. This provides the ability to implement a further stretch into the scheme, while an overarching target for the annual rate of return must be achieved in the second performance period to unlock any other payment in line with the performance conditions.

To reflect the introduction of the two additional threshold hurdles, the reduction in relation to other potential detractors, such as reputation or credit rating which the Committee can apply, has been reduced to 30 per cent.

The Committee agreed to change the annual bonus scheme to apportionately weight bonus payments to the achievement of customer-driven outcomes, which are measured using the suite of ODI measures.

The current annual bonus scheme has a 40 per cent weighting for financial targets and a 60 per cent weighting for non-financial targets. The Committee reviewed these and made changes for the 2018/19 annual bonus scheme, approving a 35 per cent weighting for financial targets and a 65 per cent weighting for non-financial targets, with the ODI measure moving from 30 per cent to 35 per cent to account for this difference. More information on these changes can be found in the report.

This review was supported by external remuneration consultants and took into account market practice in the water sector and in the broader listed environment.

Paul Whittaker
Chairman of the Remuneration Committee
5 June 2018

AT A GLANCE

REMUNERATION PRINCIPLES

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively, and to promote the success of the Company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets.

The overall aim is that Executive Directors' remuneration should be market-competitive relative to other comparable companies, and with a significant proportion being performance-related, and therefore only being paid out if stretching short-term and long-term targets are achieved.

Note: This diagram denotes the Anglian Water outcomes for our customers, business and the environment. The Executive Directors' annual bonus, and therefore overall in-year remuneration, is directly linked to the achievement of these outcomes through the ODI measure. More detail is provided in Table 9 on page 126.

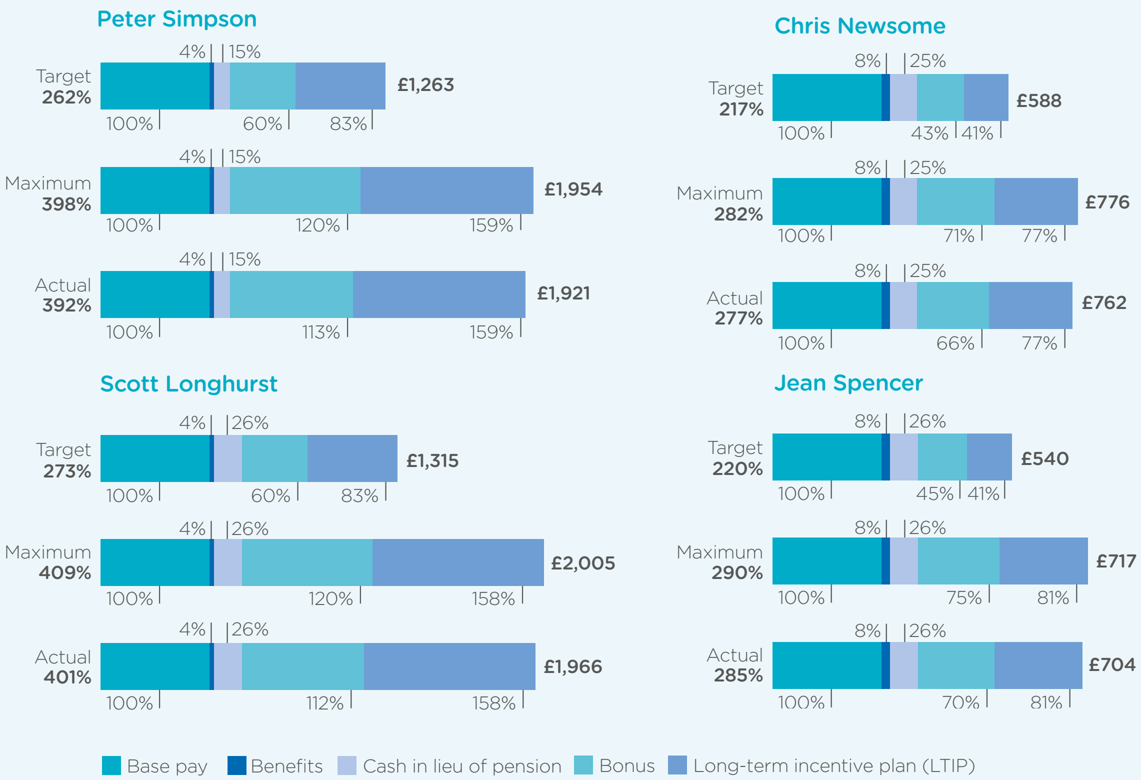
CONSIDERATION OF SHAREHOLDER VIEWS

Non-Executive Directors representing the ultimate owners of the Company sit alongside Independent Non-Executive Directors 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 2017/18. The designs of the long-term incentive arrangement (LTIP) and the annual bonus include a range of minimum and maximum levels of performance that would qualify for a sliding scale of payments, rather than base or target performance levels. The graph therefore shows the percentage of base salary that could be earned for minimum and maximum performance levels, as well as the actual outcome for 2017/18.

Graph 1



Note: All figures are displayed in £'000s and have been rounded accordingly – in some cases this amounts to a 1% difference. The target remuneration includes the relevant percentage for each Executive of their 2015 LTIP base award. The maximum remuneration for the LTIP calculation includes the uplift for the actual average rate of return (ARR) across the performance period. This figure was not known at the start of the performance period but deemed to be the most appropriate to use to demonstrate actual remuneration against maximum remuneration.

DIRECTORS' REMUNERATION POLICY

This part of the Directors' Remuneration Report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year ended 31 March 2018, and any changes for the year ending 31 March 2019.

Table 1: Remuneration policy table

Element and link to strategy	Operation and performance metrics	Maximum potential for 2017/18	Changes for 2018/19
Base salary To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.	Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by: - role, experience and performance - average change in broader workforce salary - total organisational salary budgets. Salaries are benchmarked against the FTSE 250 and other comparable utility companies.	Annual increases will not exceed the general level of increases for the Company's employees except where an individual changes roles, or where benchmarking indicates that an individual's salary requires realignment to remain competitive.	No changes proposed.
Benefits To increase the economic security of employees, and recruit and retain employees.	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	Peter Simpson: 4% of base salary Scott Longhurst: 4% of base salary Chris Newsome: 8.4% of base salary Jean Spencer: 7.6% of base salary	No changes proposed.
Annual bonus To reward the achievement of annual financial and strategic business targets and delivery of personal objectives.	Payment determined by the Committee following the year end. Company targets are set and reviewed annually and comprise a basket of financial and non-financial metrics, plus personal objectives. Awards for 2017/18 are based 70% on Company performance and 30% on personal objectives. Personal objectives relate to areas of the business over which the individual has influence. The Committee has the discretion to reduce bonus payouts in the event of material issues in relation to service, health and safety, quality, reputation, and financial or regulatory performance.	Peter Simpson and Scott Longhurst Maximum: 120% of base salary Target: 60% of base salary Chris Newsome and Jean Spencer Maximum: 75% of base salary Target: 45% of base salary	No changes proposed.

Element and link to strategy	Operation and performance metrics	Maximum potential for 2017/18	Changes for 2018/19
Long-term incentive plan (LTIP) To incentivise Directors to deliver sustained long-term performance.	Long-term incentive awards are granted each June and are paid at the end of the performance period, subject to the achievement of performance conditions. Structure, eligibility and quantum of awards are reviewed annually to ensure continued alignment to strategy.	Peter Simpson and Scott Longhurst Opportunity: 150% of base salary Chris Newsome and Jean Spencer Opportunity: 75% of base salary	To ensure clear alignment between the remuneration for Executive Directors and key business outcomes, the Committee has amended the design of the LTIP. Threshold performance requirements have been introduced that must be achieved prior to the assessment of any other performance conditions. These include: Serviceability, Customer Service, Environmental Performance, Water Quality, and Health and Safety. These measures were selected as they are felt to best demonstrate the Company's commitment to deliver exceptional customer service and operational performance. In addition, the three-year performance period has been split to reflect different weightings of the two performance measures across the period –the first performance period (April 2018 to March 2020) and the second performance period (April 2020 to March 2021). This provides the ability to implement a further stretch into the scheme, while an overarching target for the annual rate of return must be achieved in the second performance period to unlock any other payment in line with the performance conditions. To reflect the introduction of the two additional threshold hurdles, the reduction in relation to other potential detractors, such as reputation or credit rating which the Committee can apply, has been reduced to 30%.
Pension To attract and retain high-calibre individuals by providing good-quality pension arrangements.	AWS operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of Company contribution to the pension may be made.	Peter Simpson receives a contribution of 12.8% of base salary up to a cap of £138,885 and a cash payment of 15% of base salary above this cap. A contractual commitment to deliver 25% of salary in respect of Company contributions to pensions for Scott Longhurst, Chris Newsome and Jean Spencer is delivered through a cash payment.	No changes proposed.

AWG CO-INVESTMENT PLAN

The Co-investment Plan (the Plan) was established in March 2015 and was designed to operate annually throughout AMP7. Senior executives are able to make one annual investment out of their net annual bonus and historic LTIP awards vested in the applicable year, to a maximum of £1 million over the AMP. Funds are locked in for the whole AMP, with Committee discretion to wave this condition in exceptional circumstances.

Sums invested are treated as a loan in respect of which interest is payable, calculated annually and added to the principal sum invested. The rate of interest is aligned to the total shareholder return.

Under the rules of the Plan, two further investments (in June 2018 and June 2019) are permissible as long as the total sum invested by an individual does not exceed £1 million. The table below illustrates the sums invested in the Plan to date.

Table 2

Investment year	Original investment £
Peter Simpson	
2015	417,000
2016	513,000
2017	70,000
Cumulative	**1,000,000**
Scott Longhurst	
2015	428,000
2016	572,000
2017	–
Cumulative	**1,000,000**
Chris Newsome	
2015	100,000
2016	100,000
2017	100,000
Cumulative	**300,000**
Jean Spencer	
2015	50,000
2016	80,000
2017	150,000
Cumulative	**280,000**

Final investment value will only be determined in 2020.

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 3

Element	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new Executive Director's ongoing package will be consistent with our remuneration policy as set out in this report.
Replacement awards	The Committee will seek to structure any replacement awards in whole or in part such that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited and will be subject to clawback in the event of any early exit. In determining quantum and structure of these commitments, the Committee will require reasonable evidence of the nature and value of any forfeited award.
Sign-on payments/ recruitment awards	Our policy is not to provide sign-on compensation. However, in exceptional circumstances, the Committee may make a sign-on payment to an individual, payment of which will be subject to performance conditions and/or a holding period and good and bad leaver provisions. The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the Company. In circumstances where payment is appropriate, in the majority of cases the maximum compensation would be no greater than 100% of salary.
Relocation policies	Where an individual is relocating to take up the role, the Company may provide one-off benefits such as reasonable relocation expenses.

Table 4: Policy on payment for loss of office

Component	Policy on exit
General	No Executive Director has any contractual right to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance will not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors including the Executive Director's obligation to mitigate their own loss.
Base salary, pension and benefits	Salary, pension and benefits will be paid over the notice period. The Committee has discretion to make a payment of salary in lieu of notice.
Annual incentive	Executive Directors have no entitlement to an annual bonus in respect of the financial year in which the termination occurs. The Committee will consider whether the Director should be eligible for an annual bonus, based on individual and Company performance; any payment will normally be reduced to reflect the Director's actual period of service in that financial year.
Long-term incentive plan (LTIP)	Rights to any outstanding awards under LTIPs would be dealt with by the Committee in accordance with the rules of the relevant scheme. Under these rules, an award is only automatically preserved in cases of death, incapacity or redundancy within the meaning of the Employment Rights Act 1996. In all other circumstances, the Committee has absolute discretion to determine whether an award is preserved and, if so, the basis on which any payment is made. Where the Committee chooses to preserve an award, any payment is normally pro-rated to reflect how much of the performance period the individual has worked. Further reductions might also be applied if appropriate.

SERVICE CONTRACTS

All Executive Directors appointed to the Board are employed on service contracts of no fixed term, with a notice period of 12 months by the Company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in the policy. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Committee. Currently, each Executive Director participates in the annual bonus scheme and LTIP, which are described further in the relevant sections of this report. Table 5 shows the start date for each Executive Director.

Table 5

	Start date as Executive Director
Peter Simpson	18 November 2004
Scott Longhurst	18 November 2004
Chris Newsome	24 September 2004
Jean Spencer	20 May 2004

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 6.

EXTERNAL APPOINTMENTS

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

For the year ended 31 March 2018, Scott Longhurst was a Non-Executive Director of Candover Investments plc (Candover). He was also appointed as a Non-Executive Director of Infinis Energy Management Limited (Infinis) on 10 May 2017. His remuneration for the year in respect of Candover was £45,000, and his remuneration for the period from the date of appointment to 31 March 2018 in respect of his role at Infinis was £42,000. Mr Longhurst resigned as a Director of Candover with effect from 19 April 2018.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

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

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

The Committee also pays regard to how the total remuneration of the CEO compares with the average pay of employees, and Table 18, which can be found on page 134, shows the ratio.

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.

CHAIRMAN AND 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.

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 6.

Table 6

	Date of first appointment	Date of expiry of current terms
Stephen Billingham	26 November 2014	31 March 2021
Polly Courtice	1 April 2015	31 March 2021
Steve Good	1 April 2015	31 October 2018
John Hirst	1 April 2015	31 March 2021
Paul Whittaker	14 October 2013	13 October 2019

With the exception of Steve Good, these appointments may be terminated with six months' notice by either party. Steve Good's appointment may be terminated with one month's 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 Independent Non-Executive Directors are reviewed by the Committee, 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 Committee. The Chairman is not involved in setting his own remuneration.

Table 7: Fee policy

Element and link to strategy	Operation and performance metrics	Maximum potential for 2017/18	Changes for 2018/19
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 the Senior Independent Non-Executive Director or chair Board committees, to reflect the significant additional responsibilities attached to these duties. The Chairman and Non-Executive Directors do not participate in any of the Company's incentive or pension schemes.	n/a	No changes proposed.
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.	Depending on the home location of the Director, these payments are all less than 1.5% of base fees.	

Note: 60% of the Chairman's costs are charged to the Company. 100% of the Non-Executive Directors' costs are charged to the Company.

ANNUAL REPORT ON REMUNERATION

Table 8: Single total remuneration figure (audited)

	Total paid by Anglian Water Services											
	Base pay £		Taxable benefits[1] £		Pension including cash in lieu[2] £		Annual bonus[3] £		LTIP[4] £		Total £	
	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**
Peter Simpson[5]	480,000	490,560	21,467	19,450	73,720	75,316	562,368	554,882	435,715	780,433	1,573,270	1,920,641
Scott Longhurst[6]	480,000	490,560	19,028	19,148	126,720	129,507	562,944	549,898	435,715	776,972	1,624,407	1,966,085
Chris Newsome	268,973	274,891	25,481	23,192	67,628	69,115	188,486	182,737	191,537	211,790	742,105	761,725
Jean Spencer	241,864	247,185	17,490	18,836	63,852	65,257	177,964	172,535	176,540	199,967	677,710	703,780
Total Executive Directors	**1,470,837**	**1,503,196**	**83,466**	**80,626**	**331,920**	**339,195**	**1,491,762**	**1,460,053**	**1,239,507**	**1,969,162**	**4,617,492**	**5,352,231**

1 Benefits include private health insurance, car allowance, private fuel and life assurance.

2 Pension costs represent cash payments in lieu of contractual commitments as no Executive Directors currently save into the pension scheme.

3 The annual bonus for 2016/17 has been updated to reflect an additional 'true up' payment in line with the scheme rules, relating to the provision of the final performance data where only a partial payment had been previously paid.

4 This long-term incentive payment relates to the 2014 and 2015 awards for the three-year performance period ending in March 2017 and 2018 respectively. Both include the uplift of the base award by the ARR delivered over the performance period, which is a feature of the scheme designs.

5 For Peter Simpson, 36% of long-term incentive costs and 70% 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.

6 For Scott Longhurst, 100% of long-term incentives are paid for by the AWG group. 60% of basic salary, benefits, pension and bonus costs are paid by Anglian Water Services Limited, with the remaining proportion being paid by other parts of the AWG group.

BASE PAY

When assessing the pay awards for each of the Executive Directors and senior managers, the Committee considers the remuneration increases for employees throughout the Group. As disclosed in the 2016/17 report, the Board agreed that salaries for Executive Directors would be increased by 2.2 per cent from 1 April 2017.

ANNUAL BONUS

The annual bonus is designed to incentivise performance against a basket of financial and non-financial Company measures, including personal objectives for each Executive Director. At the start of the year, the Committee chooses measures to reflect the key priorities of the business and sets base, stretch and, where appropriate, threshold targets for each measure. The Committee has discretion to amend Company and personal objectives during the year. At year end, when assessing performance against Company and personal objectives, the Committee considers any other results or factors it deems relevant, and applies its overall judgement in recommending final bonus outcomes to the Board. In doing so, the Committee also has discretion to adjust payment downwards for material issues on service, quality, health and safety, reputation, and financial or regulatory performance even when the Executive Director has achieved their personal objectives. The Committee may also, at members' discretion, claw back annual bonus already paid where, in their judgement, there has been serious misconduct.

The Board has selected the outcomes of most importance to customers, and set annual targets for achievement on each outcome. These annual targets have been included in the annual bonus. To keep the bonus design simple, the performance on the outcomes is measured through an overall ODI scorecard. Within the scorecard, each outcome has a maximum number of points, which reflect the size of the associated financial reward or penalty.

The ODI Scorecard comprises targets for:

- the Service Incentive Mechanism (SIM) (explained below)
- reduction in the total number of minutes for which customers' water supplies are interrupted
- reducing water lost through leakage
- reducing pollution incidents
- increasing the number of bathing waters in our region classed as excellent
- reducing the number of properties affected by low water pressure
- reducing the number of properties flooded internally and externally from sewers
- reducing the number of contacts from customers about drinking water quality and acceptability (including appearance, taste and odour)
- customer perceptions of affordability, fair bills and value for money
- improving water efficiency (per property consumption).

The Totex Delivery Index (TDI) is a measure of efficient delivery of our investment programme, and reflects the move to totex-based regulation from 2015.

The SIM has two parts: a qualitative part, based on surveys of customer satisfaction; and a quantitative part, which comprises the number of customer complaints and the level of customer contacts that indicate poor service, such as written complaints and telephone calls classed as unwanted. Ofwat conducts customer satisfaction surveys and publishes the relative scores of all water and sewerage companies (WaSCs) in England and Wales for both qualitative and quantitative measures. The Company's annual bonus targets have been set based on these relative scores. Consistent with the way Ofwat now weights the qualitative and quantitative part of the measure, 75 per cent of this bonus element is based on the qualitative part of the measure and 25 per cent on the quantitative.

OUTCOMES FOR 2017/18

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on the financial measures, just below stretch on TDI, and between base and stretch target on ODIs.

Table 9 shows the scoring mechanism and the ODI outcomes for 2017/18, detailing the Company's performance for each ODI measure.

Table 9

	Threshold	Base	Stretch	Outcome
SIM position (position among WaSCs)	5th	4th		1st
Interruptions to supply (minutes)	–	12		7 mins 24 secs
Leakage (megalitres per day)	–	182		183
Pollution incidents (number of Category 3 incidents)	298	219		219
Bathing waters (number of bathing waters rated excellent)	–	33		31
Flooding internal (number or properties)	–	448		396
Water quality complaints (number of complaints per 1,000 customers)	–	1.23		1.23
Affordability (% improvement in CCWater tracker survey)	–	2%	–	10%
Fair bills (% improvement in CCWater tracker survey)	–	2%	–	9%
Flooding external (number of properties)	–	6,159	–	4,823
Low pressure (number of properties at risk of persistent low pressure)	–	366		297
Drinking water quality (% mean zonal compliance)	–	99.95	–	99.96
Per property consumption (litres per property/household per day)	–	308	–	316
Value for money (% improvement in CCWater tracker survey)	–	2%	–	8% (water) 5% (sewage)

Overall, financial performance was very strong for the year. Specific management focus was placed around cash management, particularly around the collection of customer debt. Revenue was ahead of budget, and with strong cost control during the year it meant that the business was able to absorb significant one-off costs plus extra operational costs required to deal with the prolonged period of severe weather over the winter months.

In terms of the non-financial measures, overall the performance in the year was above stretch against most of the major ODIs and, as a consequence, the Company has achieved between base and stretch target against the total scorecard. The outcomes reflect improvements in Interruptions to Supply, Leakage and Pollutions, despite the severe weather in March, and we have avoided much larger potential penalties by taking action to maintain asset serviceability, reduce pollutions, and improve and maintain key ODIs.

In the case of our strong customer service performance, as measured via the SIM, our performance was rewarded with a first place in 2017/18.

For totex, this was a successful year, achieving the challenging stretch financial outperformance while falling just short of stretch against the on-time delivery of projects.

The Committee recommended to the Board that the extent to which overall Company performance targets had been achieved was 92 per cent for all of the Executive Directors.

As a result of this performance, and the Committee's review of the CEO's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2017/18 were between 93.1 per cent and 94.3 percent of annual bonus potential.

OUTCOMES FOR EXECUTIVE DIRECTORS

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 2017/18 performance year.

Table 10 (audited)

	Weight for 2017/18 (as % of base pay)	Threshold	Base	Stretch	Outcome
Peter Simpson					
Financial measures	**33.6**				**33.6%**
Free cash flow	16.8	●	●	●	16.8%
EBITDA	16.8	●	●	●	16.8%
Non-financial measures	**50.4**				**43.5%**
Outcome delivery incentives (ODI)	25.2	●	●	●	19.1%
Totex Delivery Index (TDI)	25.2	●	●	●	24.4%
Personal objectives	**36**		●	●	**36.0%**
Total % base pay	**120**				**113.1%**
Base pay £					£490,560
Bonus paid £					£554,882

Note: All figures have been rounded accordingly.

Table 10 (audited) continued

	Weight for 2017/18 (as % of base pay)	Threshold	Base	Stretch	Outcome
Scott Longhurst					
Financial measures	**28.8**				**28.8%**
Free cash flow	14.4	🟢	🟢	🟢	14.4%
EBITDA	14.4	🟢	🟢	🟢	14.4%
Non-financial measures	**43.2**				**37.3%**
Outcome delivery incentives (ODI)	21.6	🟢	🟢	🟠	16.4%
Totex Delivery Index (TDI)	21.6	🟢	🟢	🟠	20.9%
Non-regulated businesses' performance	**12**	🟢	🟢	🟢	**12.0%**
Personal objectives	**36**		🟢	🟠	**34.0%**
Total % base pay	**120**				**112.1%**
Base pay £					£490,560
Bonus paid £					£549,898
Chris Newsome					
Financial measures	**21**				**21.0%**
Free cash flow	10.5	🟢	🟢	🟢	10.5%
EBITDA	10.5	🟢	🟢	🟢	10.5%
Non-financial measures	**31.5**				**27.3%**
Outcome delivery incentives (ODI)	15.75	🟢	🟢	🟠	12.0%
Totex Delivery Index (TDI)	15.75	🟢	🟢	🟠	15.3%
Personal objectives	**22.5**		🟢	🟠	**21.5%**
Total % base pay	**75**				**69.8%**
Base pay £					£261.801
Bonus paid £					£182,737
Jean Spencer					
Financial measures	**21**				**21.0%**
Free cash flow	10.5	🟢	🟢	🟢	10.5%
EBITDA	10.5	🟢	🟢	🟢	10.5%
Non-financial measures	**31.5**				**27.3%**
Outcome delivery incentives (ODI)	15.75	🟢	🟢	🟠	12.0%
Totex delivery index (TDI)	15.75	🟢	🟢	🟠	15.3%
Personal objectives	**22.5**		🟢	🟠	**21.5%**
Total % base pay	**75**				**69.8%**
Base pay £					£247,185
Bonus paid £					£172,535

OUTCOMES FOR EXECUTIVE DIRECTORS (AUDITED)

Long-term incentive plan (LTIP)

The AWG LTIP is designed to reward and incentivise senior executives who can influence the long-term performance of the Company and deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees are granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a specific performance period. LTIP awards are granted each year in June.

In order to align the interests of executives with those of shareholders, the payment is uplifted by the average annual rate of return over the performance period.

OUTCOMES IN 2017/18

The 2015 LTIP award vested in May 2018. Table 11 shows the performance measures and weightings for the awards made in 2015. The performance period ran from 1 April 2015 to 31 March 2018.

Table 11

		Weighting as % of base pay		Actual performance	
Performance measure		Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer	Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Rate of return	Achievement of targeted average rate of return over the performance period	75%	37.5%	75%	37.5%
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the performance period	75%	37.5%	75%	37.5%

In making recommendations to the Board on the extent to which these performance conditions had been achieved, the Committee concluded that the Company had outperformed on both the rate of return measure and the achievement of totex efficiency measures.

The Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 100 per cent. Under the design of the scheme, awards are uplifted by the average rate of return over the performance period.

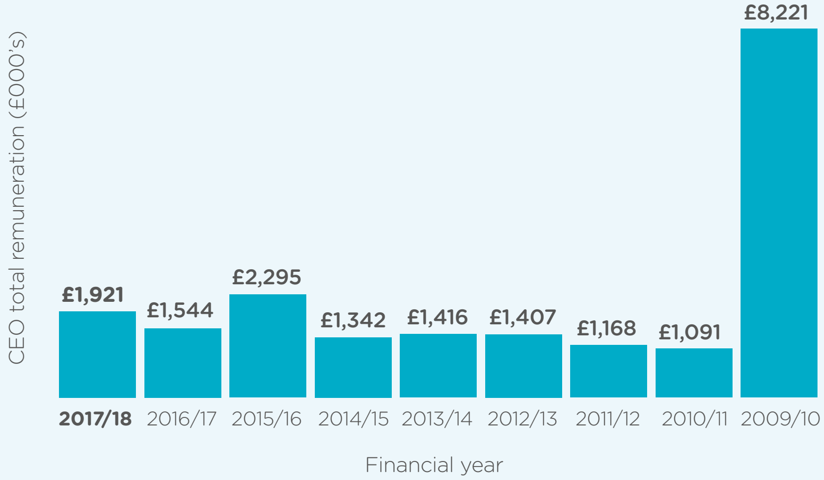
As part of the current LTIP rules, the Committee has discretion to withhold up to 30 per cent of the LTIP award for certain material issues. Having reviewed the Company's performance in detail, the Committee recommended that there had been no material performance issues over the three-year performance period warranting the use of this discretion.

Table 12: Payments to Executive Directors during 2017/18 and the value of unvested long-term incentives (audited)

	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2017 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2018 £	Value of awards vesting on 31 March 2018 £
Peter Simpson[1]	2015 LTIP	1 April 2015 to 31 March 2018	Rate of return – 50% Totex outperformance – 50%	697,500	0	697,500	780,433
	2016 LTIP	1 April 2016 to 31 March 2019	TBC	720,000	0	720,000	0
	2017 LTIP	1 April 2017 to 31 March 2020	TBC	0	735,840	0	0
Scott Longhurst[2]	2015 LTIP	1 April 2015 to 31 March 2018	Rate of return – 50% Totex outperformance – 50%	694,407	0	694,407	776,972
	2016 LTIP	1 April 2016 to 31 March 2019	TBC	720,000	0	720,000	0
	2017 LTIP	1 April 2017 to 31 March 2020	TBC	0	735,840	0	0
Chris Newsome	2015 LTIP	1 April 2015 to 31 March 2018	Rate of return – 50% Totex outperformance – 50%	189,284	0	189,284	211,790
	2016 LTIP	1 April 2016 to 31 March 2019	TBC	210,730	0	201,730	0
	2017 LTIP	1 April 2017 to 31 March 2020	TBC	0	196,351	0	0
Jean Spencer	2015 LTIP	1 April 2015 to 31 March 2018	Rate of return – 50% Totex outperformance – 50%	178,718	0	178,718	199,967
	2016 LTIP	1 April 2016 to 31 March 2019	TBC	181,398	0	181,398	0
	2017 LTIP	1 April 2017 to 31 March 2020	TBC	0	185,389	0	0

1 The cost of Peter Simpson's LTIP awards are split between the Company and other parts of the AWG Group as described in Table 8.
2 The cost of Scott Longhurst's LTIP awards are paid by other parts of the AWG Group and are not charged to the Company.

Graph 2: Change in CEO remuneration (reverse chronological order)



Notes:
Jonson Cox stepped down as CEO of the Anglian Water Group of companies on 29 January 2010. From that date, Peter Simpson became Managing Director of AWS.
In addition to his role as Managing Director of AWS, Peter Simpson was appointed Group CEO in October 2013.
Jonson Cox's LTIP payment in 2009/10 related to a long-term incentive award made under the AWG 2007 Executive Director Long-Term Incentive Plan, and covered performance over a number of years.

Graph 3: Change in % of award of CEO annual bonus and long-term incentive (reverse chronological order)

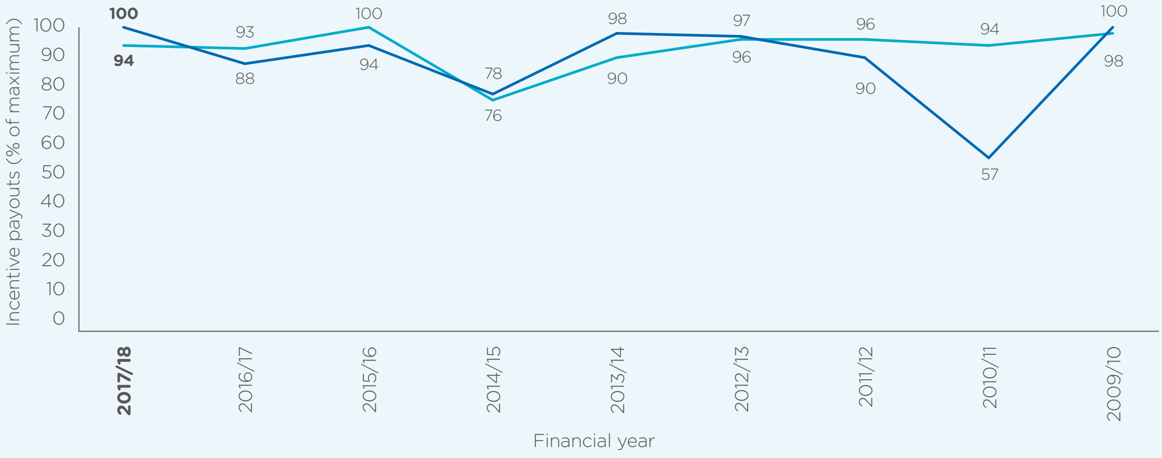


Table 13: Single total remuneration figure for Independent Non-Executive Directors (audited)

	Total remuneration all AWG £			
	2017/18			2016/17
	Fees	Benefits[1]	Total	Total
Stephen Billingham[2]	300,000	1,108	301,108	**301,830**
Polly Courtice	45,000	0	45,000	**45,332**
Steve Good	45,000	429	45,429	**45,671**
John Hirst	65,000	0	65,000	**65,650**
Paul Whittaker	55,000	0	55,000	**55,000**
Total Non-Executive Directors	510,000	1,537	511,537	**513,483**

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

2 60% of Stephen Billingham's costs are met by Anglian Water Services Limited, with the remainder paid by Anglian Water Group.

FEES

There were no changes in fees to Independent Non-Executive Directors during the year.

IMPLEMENTATION OF REMUNERATION POLICY IN 2018/19

2018/19 BASE PAY

The Committee reviewed current base pay arrangements and it was mutually agreed with the Executive Directors that there would be no base pay increase for Executive Directors for 2018/19. The wider workforce received a 3 per cent increase.

2018/19 BONUS AWARDS

The Committee carried out a thorough review of incentives in 2017/18 to ensure they were aligned to the key priorities for AMP6. The performance metrics for 2018/19 are shown in Table 14.

The Committee has reviewed the weightings of the performance metrics for the 2018/19 annual bonus and agreed to change these to give a greater alignment between executive remuneration and the service provided to customers, which is measured through the non-financial measures and in particular the ODIs. Financial measures are now 35 per cent of the award (with both the EBIDTA and cash flow measures comprising 17.5 per cent each), with 65 per cent weighted towards the non-financial measures – where 35 per cent will be allocated to the outcomes of the ODI measure and 30 per cent to the TDI measure.

The Board has set stretching targets for all measures.

Table 14 shows the impact of these changes on the annual bonus outcomes for the Executive Directors.

Table 14

Performance measure	Weighting as % of base pay: Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
Financial measures	**29.4**	**25.2**	**18.4**
Free cash flow	14.7	12.6	9.2
EBITDA	14.7	12.6	9.2
Non-financial measures	**54.6**	**46.8**	**34.2**
Outcome Delivery Incentives (ODIs)	29.4	25.2	18.4
Totex Delivery Index (TDI)	25.2	21.6	15.8
Non-regulated businesses' performance	**0**	**12**	**0.0**
Personal objectives	**36**	**36**	**22.5**
Total % base pay	**120**	**120**	**75.0**

2018 LTIP AWARDS

The Committee intends to make further awards in June 2018, and the Board has reviewed and updated the performance conditions and targets to ensure they reflect the priorities for the three-year performance period from 1 April 2018 to 31 March 2021.

To ensure clear alignment between the remuneration for Executive Directors and key business outcomes, the Committee has amended the design of the LTIP.

Threshold performance requirements have been introduced that must be achieved prior to the assessment of any other performance conditions. These include Serviceability, Customer Service, Environmental Performance, Water Quality, and Health and Safety. These measures were selected as they are felt to best demonstrate the Company's commitment to deliver exceptional customer service and operational performance.

In addition, the three-year performance period has been split into the first performance period (April 2018 to March 2020) and the second performance period (April 2020 to March 2021), to reflect different weightings of the two performance measures across the period. This provides the ability to implement a further stretch into the scheme, while an overarching target for the annual rate of return must be achieved in the second performance period to unlock any other payment in line with the performance conditions.

To reflect the introduction of the two additional threshold hurdles, the reduction in relation to other potential detractors, such as Reputation or Credit Rating which the Committee can apply, has been reduced to 30 per cent.

The impact of these changes on the Executive Directors' LTIP award is reflected in Table 15, which shows the weighting as a percentage of base pay for the Executive Directors' LTIP across both performance periods and consolidated for the whole performance period.

Table 15

	Performance measure	Maximum LTIP % for first performance period (April 2018–March 2020)	Maximum LTIP % for second performance period (April 2020–March 2021)	Maximum LTIP % over full performance period
Peter Simpson and Scott Longhurst	Rate of return	66.0	49.5	115.5
	Totex outperformance	34.5		34.5
Chris Newsome and Jean Spencer	Rate of return	33.0	24.8	57.8
	Totex outperformance	17.3		17.3

ILLUSTRATIONS OF APPLICATION OF THE REMUNERATION POLICY

The charts in Table 16 show the weighting as a percentage of base pay for the Executive Directors' LTIP across both performance periods and consolidated for the whole performance period, show the total potential remuneration that could be payable by Anglian Water Services and Anglian Water Group to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2018/19.

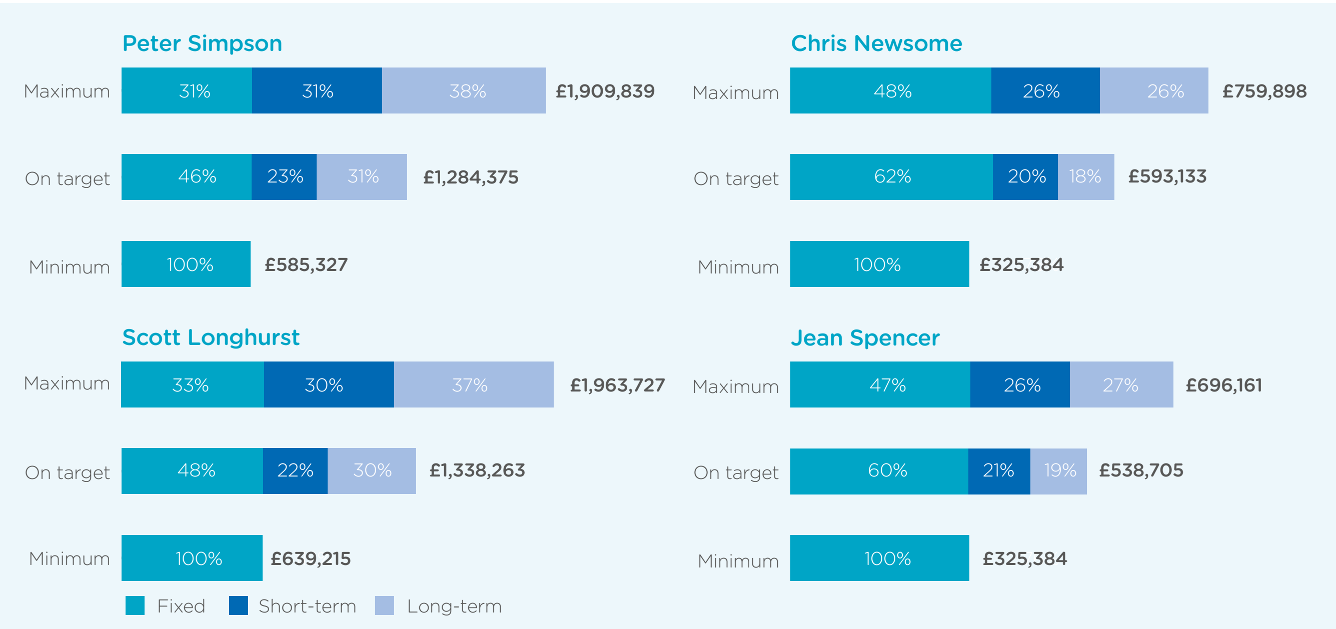
In these charts:

- fixed remuneration is the minimum payable, and is made up of base pay for 2018/19 plus the value of pension and benefits
- the short-term incentive is the annual bonus for 2018/19
- the long-term incentive is the LTIP under which base awards will be made in 2018/19
- for the annual bonus, the Board has set base and stretch targets, or a range of minimum and maximum levels of performance that would qualify for a sliding scale of payments
- for the LTIP, the Board has set base, stretch and super stretch targets
- the 'on target' bar in the charts below therefore shows the percentage of fixed remuneration that could be earned for base levels of performance, or minimum threshold performance where the targets are set as a range.

Maximum performance would result in the maximum annual bonus payment, and 100 per cent of the LTIP award vesting. The LTIP award value illustrated below does not include the uplift to long-term incentive payments based on the average rate of return delivered over the performance period.

The 'maximum' bars in all the charts include LTIP awards granted in 2018/19, but which are due to vest in subsequent years; they do not include the LTIP awards granted in 2016 which will vest in May 2019.

Table 16



CONDITIONS IN THE WIDER GROUP

PERCENTAGE CHANGE IN CEO REMUNERATION COMPARED WITH OTHER EMPLOYEES

Table 17 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2016/17 to 2017/18. 'Other employees' are the employees of Anglian Water Services and AWG Group Limited who have been employed for the full 2017/18 year. This group excludes the senior executives on the Management Board of AWS, and has been chosen because these employees are considered to be the most representative of the overall workforce.

Table 17

	% change in CEO remuneration, 2017/2018 vs 2016/2017	% change in remuneration for other employees, 2017/2018 vs 2016/2017
Base pay[1]	2.20	3.70
Taxable benefits[2]	-9.39	9.35
Annual bonus[3]	-1.35	2.45

1 Includes Company-wide annual pay review and salary progression.

2 The reduction in taxable benefits for the CEO is owing to a payment of £2,192, which the CEO received on maturity of the Loyalty Savings Scheme (the Company's three-year savings scheme open to all employees) in 2016/17, but was not applicable in 2017/18. Increase for 'other employees' relates to the year-on-year increase in the benefit charge on company cars, based on CO_2 emissions, under the Income Tax (Earnings and Pensions) Act 2003, and an overall increase in the number of employees receiving a car benefit, an increase in private healthcare contributions, as well as an increase in financial awards through the AWS recognition system.

3 The decrease in the percentage change in annual bonus for the CEO reflects the slightly lower level of outperformance in 2017/18 compared to 2016/17, notably performance on the ODI measure, as described in other sections of the report. Further details can be found in Table 9. The increase in the percentage change in annual bonus for 'other employees' is owing to small increases in overall payments across the majority of the bonus schemes within AWS.

RATIO FOR CEO BASE PAY COMPARED TO WIDER WORKFORCE

Table 18 shows the base pay ratio for the CEO in comparison to base pay for other employees (definition as earlier), for 2017/18.

This figure will be used as a benchmark for future review as part of the Committee's commitment to review CEO pay and ensure that this is in line with industry standard and upcoming legislative changes, which are due in 2018.

Table 18

	Base pay ratio figure for the CEO versus other employees
2017/18	17:1

Note: The calculation of this ratio uses base pay for the CEO and the average base pay for other employees. The definition of 'other employees' is detailed earlier.

RELATIVE IMPORTANCE OF SPEND ON PAY

Table 19 below sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2017 and 31 March 2018.

Table 19

	AWS		
	2017/18 £m	2016/17 £m	% change
Remuneration paid to employees[1]	189.4	179.7	5.4
Distribution to shareholders	86.1	128.0	(32.7)
Capital investment[2]	402.6	309.7	30.0

1 Remuneration paid to employees has increased by 5.4%. This includes an annual pay increase for all employees of 2.2%, and an increase in employee numbers, which rose by 3.1%.

2 Capital investment is higher in 2017/18 compared to the prior year, which is in line with expectations for this period in the AMP.

ROLE OF THE COMMITTEE

The Remuneration Committee is a committee of the Board of AWS. The Committee has responsibility for making recommendations to the Board on remuneration policy and structure for the Executive Directors and senior management of AWS. The Committee has defined terms of reference, which are available on the Company's website.

The Committee is ultimately responsible for making recommendations to the board of AWS for approval.

MAIN ACTIVITIES IN THE YEAR

Remuneration matters relating to the 2017/18 financial year were discussed at Remuneration Committee meetings held on 25 May 2017, 1 November, 22 November 2017, 24 January 2018, 20 February 2018 and 21 March 2018. The items discussed at these meetings are summarised below.

May 2017

- Approval of the performance contract outturn in respect of the financial year just concluded, being the year under review ('past year').
- Performance review and pay and bonus recommendation for senior management.
- Approval of pay awards to Executive Directors for the forthcoming financial year.
- Discussion of Co-investment Plan participants for the forthcoming year.
- Approval of vesting of 2014 LTIP award and approval of 2017 LTIP awards.
- Discussion of gender pay gap reporting.
- Approval of objectives for 2017/18.

November 2017

- Approval of AWG Loyalty Savings Scheme.
- Discussion of gender pay gap reporting.
- Discussion of 2018 LTIP design.

January and February 2018

- Initial review of the vesting of the 2015 LTIP award.
- Initial review of bonus payments to AWS Executive Directors in relation to performance during the past year.
- Review of proposals for 2018/19 performance contract.

March 2018

- Review of the structure of LTIP awards to AWS employees to be made at the start of the new financial year.
- Review of Executive and Management Board pay.
- Remuneration of Independent Non-Executive Directors.

In addition to these activities, the Committee also undertook a review of external benchmark data to ensure the structure and quantum of remuneration packages for the CEO and CFO remained competitive and appropriate against the market. As a result of this review, no further changes were proposed.

COMMITTEE PERFORMANCE AND EFFECTIVENESS

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 108. No material shortcomings in the operation of the Committee were highlighted.

EXTERNAL ADVISORS

During 2017/18, the Committee used PricewaterhouseCoopers (PwC) as external remuneration consultants to provide advice and benchmarking data as part of a review of CEO and CFO remuneration packages. PwC also act as the Company's internal auditor.

STATUTORY REQUIREMENTS

This Remuneration Report has been prepared by the Committee on behalf of the Board and was approved by the Board on 5 June 2018 and signed on its behalf.

Paul Whittaker
Chairman of the Remuneration Committee
5 June 2018

DIRECTORS' REPORT

For the year ended 31 March 2018

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the Company) for the year ended 31 March 2018.

BUSINESS REVIEW

The ultimate parent company of Anglian Water Services Limited is Anglian Water Group Limited, a company registered in Jersey. Anglian Water Group Limited is owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors and Camulodunum Investments Ltd (CIL). 3i sold its holding in Anglian Water Group Limited to CIL on 22 February 2018. The Company's ownership structure is detailed on page 26.

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 1 to 95. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on pages 67 to 68.

CORPORATE GOVERNANCE STATEMENT

The Disclosure & Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 102 to 109 and is incorporated into this Directors' Report by reference.

Details of the corporate governance arrangements resulting from the securitisation of the Company in 2002 can be found on page 102 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 18 of the financial statements.

PRINCIPAL ACTIVITIES

The Company provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 900 million litres of used water per day from six million people and businesses, including customers who receive their water from other companies. The used water is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, the Company provides retail services to household customers within its region.

RESULTS AND DIVIDENDS

The Group income statement on page 141 shows the Group's results and profit for the year. Details of dividends paid during the year and proposed dividends can be found in note 10 of the financial statements.

RISK MANAGEMENT

Detailed information around the Company's risk management processes, including its approach to financial risks can be found on pages 74 to 88.

HEALTH AND SAFETY

Details are included on pages 48 to 49.

DIRECTORS

Current Directors of the Company are listed on pages 98 to 101 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 104.

DIRECTORS' INDEMNITIES

During the 2017/18 financial year and up until the date of the signing of the financial statements, the Company has maintained Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2)–(6)) of the Companies Act 2006.

CHARITABLE AND POLITICAL DONATIONS

The Company continues to provide support to WaterAid – our nominated charity, which transforms lives by improving access to clean water, toilets and hygiene in the world's poorest communities – and does not offer charitable donations or sponsorships to other charities. During the year, the Company donated £40,000 to WaterAid and actively encouraged the participation of its employees in various fundraising activities through a number of initiatives, including quizzes, cake bakes and the ongoing monthly WaterAid lottery. Volunteering for WaterAid is a key part of the Company's Love to Help employee volunteering programme, which allows employees to take time out of the office in support of various good causes.

With the support of the Company, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an additional £902,050 for WaterAid (2017: £766,474) – the highest amount ever raised by the business.

No political donations were made during the year (2017: £nil).

FUTURE DEVELOPMENTS

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

RESEARCH AND DEVELOPMENT

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

CUSTOMERS

The Company actively seeks to engage with present and future customers across its region. Future customers are engaged through school outreach programmes and hosting students at our education centres. A number of elements of our PR19 customer engagement programme have reached children and young people. H2OMG was a week-long festival with a fairground theme, based in The Forum, Norwich, which attracted over 33,000 people in August 2017. The purpose of the event was to gain customers' views on how we should deal with the future challenges we face to balancing supply and demand. Also which options we should pursue, for example, metering, leakage and developing new water resources. The insight gained directly influenced the development of our Water Resources Management Plan.

An Anglian Water touring van also visited a range of locations throughout the spring of 2018, commencing at the primary school where pupils named the road show 'H2O Let's Go'. The road show visited a range of locations across the Anglian Water and Hartlepool region, including events that attracted families (such as county shows and town festivals) and some events specifically run for young people. An extensive programme of customer engagement has been developed for this AMP, with the aim of generating an ongoing dialogue regarding customer priorities and making the best use of insight from existing contact channels. The programme has been developed in line with the Company's ambition to put customers at the heart of its activities, as well as being updated in response to Ofwat's guidance for PR19.

The Company's business plan for 2015–2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services, and was a step change from the engagement activity for the previous plan. The customer engagement activity for PR19 is another significant step forward, to keep pace with technological advances and changing customer expectations. A diverse range of innovative and traditional techniques have been used to engage with customers and to analyse results according to customer circumstances, behaviours and attitudes.

Since 2011, the independent Customer Engagement Forum (CEF) has been in place to advise and challenge the Company on how it engages with customers and how customer views are reflected in its plans. From the start of this AMP, the CEF has also monitored current performance and challenged areas where the Company has not met targets, or has significantly exceeded them. In particular, it has focused on the Company's suite of Outcome Delivery Incentives (ODIs).

The CEF has members from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy. The Company has also formed a customer board from a representative selection of members from its online community to provide further guidance and directly feed in customers' views, running alongside the CEF and the Management Board.

Excellent customer service is a high priority and the Company recognises employees who provide such service. The Management Board is actively involved in the development of the Company's customer service offering, while the Management Board monitors the results of the quarterly Service Incentive Mechanism (SIM) survey conducted by Ofwat (itself an ODI) and uses Management Board meetings to discuss performance that has resulted in the SIM score at each quarter.

EMPLOYEES

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

The Company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them.

The Company recognises three trade unions, with whom management meets regularly for collective bargaining and consultation purposes. The Company has an active network of health and safety committees at which senior managers meet with trade union representatives to consult on matters affecting health and safety at work. The Company also operates a further elected employee forum Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and consider suggestions for change.

The Company has a series of policies that both inform and guide all employees on the Company's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour. The Group has a whistleblowing policy, details of which can be found in the Audit Committee Report on page 111. The Company also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

The Company participates in the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

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

EVENTS OCCURRING AFTER THE REPORTING PERIOD

Details of events occurring after the reporting period are included in note 30 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 2018 financial statements.

DIRECTORS' DISCLOSURES TO AUDITORS

In the case of each of the persons who are Directors at the time when the report is approved under section 418 of the Companies Act 2006 the following applies:

a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

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

AUDITORS

The auditors, Deloitte LLP, have indicated their willingness to stay in office and are deemed to be reappointed.

BY ORDER OF THE BOARD

Claire Russell
Company Secretary
5 June 2018

Registered Office:
Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire PE29 6XU
Registered in England and Wales No 2366656

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Integrated Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed in the Our leadership team and Board of Directors sections on pages 28 and 98 to 101 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- the Directors' Report and Strategic Report contained in the Annual Integrated Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Integrated Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Claire Russell
Company Secretary
5 June 2018

STATUTORY ACCOUNTS

CONTENTS

Group income statement

for the year ended 31 March 2018

Notes		2018 Underlying results £m	2018 Other items[1] £m	2018 Total £m	2017 Underlying results £m	2017 Other items[1] £m	2017 Total £m
	Revenue	**1,248.9**	**-**	**1,248.9**	1,227.0	-	1,227.0
4	Other operating income	**16.1**	**-**	**16.1**	14.8	-	14.8
	Operating costs						
5	Operating costs before depreciation and amortisation	**(581.0)**	**-**	**(581.0)**	(565.3)	-	(565.3)
	Depreciation and amortisation	**(335.5)**	**-**	**(335.5)**	(311.2)	-	(311.2)
	Total operating costs	**(916.5)**	**-**	**(916.5)**	(876.5)	-	(876.5)
	Operating profit	**348.5**	**-**	**348.5**	365.3	-	365.3
	Finance income	**1.6**	**191.8**	**193.4**	2.0	192.3	194.3
	Finance costs	**(344.1)**	**-**	**(344.1)**	(283.2)	-	(283.2)
	Fair value gains/(losses) on derivative financial instruments	**-**	**117.6**	**117.6**	-	(116.0)	(116.0)
6	Net finance costs	**(342.5)**	**309.4**	**(33.1)**	(281.2)	76.3	(204.9)
28	Profit on disposal of business	**-**	**4.6**	**4.6**	-	-	-
	Profit before tax from continuing operations	**6.0**	**314.0**	**320.0**	84.1	76.3	160.4
7	Tax			**(27.7)**			37.9
	Profit for the year			**292.3**			198.3

[1] Other items comprise fair value gains on derivative financial instruments and energy hedges of £117.6 million (2017: losses of £116.0 million), inter-company interest income from Anglian Water Services Holdings Limited of £191.8 million (2017: £192.3 million) and profit on the disposal of the non-household retail business of £4.6 million (2017: £nil).

Notes 1 to 30 are an integral part of these consolidated financial statements.

Group statement of comprehensive income

for the year ended 31 March 2018

Notes		2018 £m	2017 £m
	Profit for the year	**292.3**	198.3
	Other comprehensive income for the year:		
	Items that will not be reclassified to profit or loss		
21	Actuarial gains/(losses) on retirement benefit obligations	**77.4**	(100.9)
7	Income tax on items that will not be reclassified	**(13.3)**	16.8
		64.1	(84.1)
	Items that may be reclassified subsequently to profit or loss		
22	Gains/(losses) on cash flow hedges recognised in equity	**16.4**	(20.8)
22	Gains/(losses) on cash flow hedges transferred to profit or loss	**1.9**	(1.3)
7	Income tax on items that may be reclassified	**(3.1)**	2.6
		15.2	(19.5)
	Total other comprehensive income for the year	**79.3**	(103.6)
	Total comprehensive income for the year	**371.6**	94.7

Group and Company balance sheets

at 31 March 2018
Company number 02366656

Notes		Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
	Non-current assets				
11	Intangible assets	**168.3**	139.4	**168.3**	139.4
12	Property, plant and equipment	**9,652.0**	9,517.7	**9,652.0**	9,517.7
13	Investments	**-**	1,602.6	**-**	1,602.6
18	Derivative financial instruments	**89.6**	256.1	**89.6**	256.1
21	Retirement benefit surpluses	**56.3**	4.0	**56.3**	4.0
		9,966.2	11,519.8	**9,966.2**	11,519.8
	Current assets				
14	Inventories	**10.0**	9.3	**10.0**	9.3
15	Trade and other receivables	**478.9**	429.9	**478.9**	429.9
	Investments	**40.0**	75.0	**40.0**	75.0
	Cash and cash equivalents	**247.1**	354.8	**245.4**	353.1
18	Derivative financial instruments	**48.5**	12.6	**48.5**	12.6
		824.5	881.6	**822.8**	879.9
28	Assets classified as held for sale	**-**	85.6	**-**	85.6
	Total assets	**10,790.7**	12,487.0	**10,789.0**	12,485.3
	Current liabilities				
16	Trade and other payables	**(528.2)**	(467.3)	**(574.5)**	(513.2)
	Current tax liabilities	**(264.3)**	(267.6)	**(264.3)**	(267.6)
17	Borrowings	**(220.0)**	(278.4)	**(220.0)**	(278.4)
18	Derivative financial instruments	**(16.4)**	(16.3)	**(16.4)**	(16.3)
19	Provisions	**(5.3)**	(4.1)	**(5.3)**	(4.1)
		(1,034.2)	(1,033.7)	**(1,080.5)**	(1,079.6)
	Net current liabilities	**(209.7)**	(152.1)	**(257.7)**	(199.7)
	Non-current liabilities				
17	Borrowings	**(6,231.7)**	(6,196.5)	**(6,231.7)**	(6,196.5)
18	Derivative financial instruments	**(862.6)**	(1,043.8)	**(862.6)**	(1,043.8)
20	Deferred tax liabilities	**(863.4)**	(839.5)	**(863.4)**	(839.5)
21	Retirement benefit obligations	**(47.2)**	(79.6)	**(47.2)**	(79.6)
19	Provisions	**(10.7)**	(10.2)	**(10.7)**	(10.2)
16	Other non-current liabilities	**(523.5)**	(484.0)	**(523.5)**	(484.0)
		(8,539.1)	(8,653.6)	**(8,539.1)**	(8,653.6)
28	Liabilities directly associated with assets held for sale	**-**	(11.2)	**-**	(11.2)
	Total liabilities	**(9,573.3)**	(9,698.5)	**(9,619.6)**	(9,744.4)
	Net assets	**1,217.4**	2,788.5	**1,169.4**	2,740.9
	Capital and reserves				
23	Called-up share capital	**10.0**	10.0	**10.0**	10.0
	Retained earnings	**1,312.7**	2,899.0	**1,264.7**	2,851.4
22	Hedging reserve	**(105.3)**	(120.5)	**(105.3)**	(120.5)
	Total equity	**1,217.4**	2,788.5	**1,169.4**	2,740.9

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the Company, is £291.9 million (2017: £197.7 million).

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 5 June 2018 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director of Finance and Non-Regulated Business

Group statement of changes in equity

for the year ended 31 March 2018

	Share capital £m	Retained earnings £m	Hedging reserve £m	Total equity £m
Year ended 31 March 2018				
At 1 April 2017	**10.0**	**2,899.0**	**(120.5)**	**2,788.5**
Profit for the year	**-**	**292.3**	**-**	**292.3**
Other comprehensive income for the year	**-**	**64.1**	**15.2**	**79.3**
Total comprehensive income	**-**	**356.4**	**15.2**	**371.6**
Dividends (see note 10)				
Available for distribution to investors in the ultimate parent company	**-**	**(86.1)**	**-**	**(86.1)**
Not available for distribution to investors in the ultimate parent company:[1]				
- One-off restructuring dividend	**-**	**(1,602.6)**	**-**	**(1,602.6)**
- Special dividend to fund the transfer of the non-household retail business	**-**	**(62.2)**	**-**	**(62.2)**
- Servicing of inter-company interest	**-**	**(191.8)**	**-**	**(191.8)**
At 31 March 2018	**10.0**	**1,312.7**	**(105.3)**	**1,217.4**
Year ended 31 March 2017				
At 1 April 2016	10.0	3,105.1	(101.0)	3,014.1
Profit for the year	-	198.3	-	198.3
Other comprehensive income for the year	-	(84.1)	(19.5)	(103.6)
Total comprehensive income	-	114.2	(19.5)	94.7
Dividends (see note 10)				
Available for distribution to investors in the ultimate parent company	-	(128.0)	-	(128.0)
Not available for distribution to investors in the ultimate parent company:[1]				
- Servicing of inter-company interest	-	(192.3)	-	(192.3)
At 31 March 2017	10.0	2,899.0	(120.5)	2,788.5

[1] Dividends described as not available for distribution to investors in the ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 10).

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 22).

Company statement of changes in equity

for the year ended 31 March 2018

	Share capital £m	Retained earnings £m	Hedging reserve £m	Total equity £m
Year ended 31 March 2018				
At 1 April 2017	**10.0**	**2,851.4**	**(120.5)**	**2,740.9**
Profit for the year	**-**	**291.9**	**-**	**291.9**
Other comprehensive income for the year	**-**	**64.1**	**15.2**	**79.3**
Total comprehensive income	**-**	**356.0**	**15.2**	**371.2**
Dividends (see note 10)				
Available for distribution to investors in the ultimate parent company	**-**	**(86.1)**	**-**	**(86.1)**
Not available for distribution to investors in the ultimate parent company:[1]				
- One-off restructuring dividend	**-**	**(1,602.6)**	**-**	**(1,602.6)**
- Special dividend to fund the transfer of the non-household retail business	**-**	**(62.2)**	**-**	**(62.2)**
- Servicing of inter-company interest	**-**	**(191.8)**	**-**	**(191.8)**
At 31 March 2018	**10.0**	**1,264.7**	**(105.3)**	**1,169.4**
Year ended 31 March 2017				
At 1 April 2016	10.0	3,058.1	(101.0)	2,967.1
Profit for the year	-	197.7	-	197.7
Other comprehensive income for the year	-	(84.1)	(19.5)	(103.6)
Total comprehensive income	-	113.6	(19.5)	94.1
Dividends (see note 10)				
Available for distribution to investors in ultimate the parent company	-	(128.0)	-	(128.0)
Not available for distribution to investors in the ultimate parent company:[1]				-
- Servicing of inter-company interest	-	(192.3)	-	(192.3)
At 31 March 2017	10.0	2,851.4	(120.5)	2,740.9

[1] Dividends described as not available for distribution to investors in the ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 10).

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 22).

Group and Company cash flow statements

for the year ended 31 March 2018

Notes		Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
	Cash flows from:				
	Operating activities				
(a)	Cash generated from operations	**644.0**	632.0	**644.0**	632.0
	Income taxes paid[1]	**(23.5)**	(19.8)	**(23.5)**	(19.8)
	Net cash flows from operating activities	**620.5**	612.2	**620.5**	612.2
	Investing activities				
	Repayment of loans by intermediate parent company	**1,602.6**	-	**1,602.6**	-
	Purchase of property, plant and equipment	**(378.9)**	(302.1)	**(378.9)**	(302.1)
	Purchase of intangible assets	**(64.3)**	(47.0)	**(64.3)**	(47.0)
	Disposal of business, net of cash disposed (see note 28)	**79.0**	-	**79.0**	-
	Grants and contributions received	**40.4**	39.4	**40.4**	39.4
	Proceeds from disposal of property, plant and equipment	**4.5**	2.8	**4.5**	2.8
	Interest received on deposits	**1.5**	2.5	**1.5**	2.1
	Interest received on inter-company loan	**192.3**	192.3	**192.3**	192.3
	Net cash from investing activities	**1,477.1**	(112.1)	**1,477.1**	(112.5)
	Financing activities				
	Interest paid	**(215.9)**	(233.4)	**(215.9)**	(233.4)
	Issue costs paid	**(1.7)**	(4.5)	**(1.7)**	(4.5)
	Interest element of finance lease rental payments	**(0.8)**	(1.3)	**(0.8)**	(1.3)
	Increase in amounts borrowed	**248.6**	569.3	**248.6**	569.3
	Repayment of amounts borrowed	**(247.7)**	(494.0)	**(247.7)**	(494.0)
	Repayment of accreted interest on derivatives	**(73.9)**	-	**(73.9)**	-
	Capital element of finance lease rental payments	**(5.7)**	(5.1)	**(5.7)**	(5.1)
	Decrease in short-term bank deposits	**35.0**	192.3	**35.0**	192.3
	Dividends paid:				
	Available for distribution to investors in the ultimate parent company	**(86.1)**	(128.0)	**(86.1)**	(128.0)
	Not available for distribution to investors in the ultimate parent company:[2]				
	- One-off restructuring dividend	**(1,602.6)**	-	**(1,602.6)**	-
	- Special dividend to fund the transfer of the non-household retail business	**(62.2)**	-	**(62.2)**	-
	- Servicing of inter-company interest	**(192.3)**	(192.3)	**(192.3)**	(192.3)
	Net cash used in financing activities	**(2,205.3)**	(297.0)	**(2,205.3)**	(297.0)
	Net (decrease)/increase in cash and cash equivalents	**(107.7)**	203.1	**(107.7)**	202.7
	Cash and cash equivalents at the beginning of the year	**354.8**	151.7	**353.1**	150.4
(b)	**Cash and cash equivalents at 31 March**	**247.1**	354.8	**245.4**	353.1

Notes (a) and (b) form part of this cash flow statement.

[1] Income taxes paid are all inter-company with AWG Group Limited.
[2] Dividends described as not available for distribution to investors in the ultimate parent company refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 10).

Notes to the Group and Company cash flow statements

for the year ended 31 March 2018

(a) Cash generated from operations

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Operating profit	**348.5**	365.3	**348.5**	365.3
Adjustments for:				
Amortisation of deferred grants and contributions	**(16.1)**	(14.8)	**(16.1)**	(14.8)
Depreciation and amortisation	**335.5**	311.2	**335.5**	311.2
Profit on disposal of property, plant and equipment	**(4.1)**	(2.5)	**(4.1)**	(2.5)
Difference between pension charge and cash contributions	**(9.2)**	(12.5)	**(9.2)**	(12.5)
Net movement in provisions	**2.2**	2.2	**2.2**	2.2
	308.3	283.6	**308.3**	283.6
Working capital:				
Increase in inventories	**(0.7)**	(0.3)	**(0.7)**	(0.3)
Increase in trade and other receivables	**(49.3)**	(16.8)	**(49.3)**	(16.8)
Increase in trade and other payables	**37.2**	0.2	**37.2**	0.2
	(12.8)	(16.9)	**(12.8)**	(16.9)
Cash generated from operations	**644.0**	632.0	**644.0**	632.0

Notes to the Group and Company cash flow statements continued

for the year ended 31 March 2018

(b) Analysis of net debt

	Group				
			Liabilities from financing activities		
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2016	**151.7**	**267.3**	**(6,252.6)**	**(705.6)**	**(6,539.2)**
Cash flows					
Interest paid	(233.4)	-	27.7	2.2	**(203.5)**
Issue costs paid	(4.5)	-	4.5	-	**-**
Interest element of finance lease rental payments	(1.3)	-	-	-	**(1.3)**
Increase in amounts borrowed	569.3	-	(569.3)	-	**-**
Repayment of amounts borrowed	(494.0)	-	494.0	-	**-**
Capital element of finance lease rental payments	(5.1)	-	5.1	-	**-**
Decrease in short-term bank deposits	192.3	(192.3)	-	-	**-**
Non-financing cash flows[2]	179.8	-	-	-	**179.8**
	203.1	(192.3)	(38.0)	2.2	**(25.0)**
Movement in interest accrued on debt	-	-	14.3	4.7	**19.0**
Amortisation of issue costs	-	-	(3.1)	-	**(3.1)**
Indexation of borrowings and RPI swaps	-	-	(61.1)	(14.1)	**(75.2)**
Fair value gains and losses	-	-	(69.3)	(54.0)	**(123.3)**
Exchange movements	-	-	(65.4)	-	**(65.4)**
Other non-cash movements	-	-	0.3	-	**0.3**
At 1 April 2017	**354.8**	**75.0**	**(6,474.9)**	**(766.8)**	**(6,811.9)**
Cash flows					
Interest paid	(215.9)	-	25.6	1.8	**(188.5)**
Issue costs paid	(1.7)	-	1.7	-	**-**
Interest element of finance lease rental payments	(0.8)	-	-	-	**(0.8)**
Increase in amounts borrowed	248.6	-	(248.6)	-	**-**
Repayment of amounts borrowed	(247.7)	-	247.7	-	**-**
Repayment of accreted interest on derivatives	(73.9)	-	-	73.9	**-**
Capital element of finance lease rental payments	(5.7)	-	5.7	-	**-**
Decrease in short-term bank deposits	35.0	(35.0)	-	-	**-**
Non-financing cash flows[2]	154.4	-	-	-	**154.4**
	(107.7)	(35.0)	32.1	75.7	**(34.9)**
Movement in interest accrued on debt	-	-	1.6	(2.3)	**(0.7)**
Amortisation of issue costs	-	-	(3.4)	-	**(3.4)**
Indexation of borrowings and RPI swaps	-	-	(110.3)	(26.2)	**(136.5)**
Fair value gains and losses	-	-	48.8	(12.2)	**36.6**
Exchange movements	-	-	54.4	-	**54.4**
At 31 March 2018	**247.1**	**40.0**	**(6,451.7)**	**(731.8)**	**(6,896.4)**
Net debt at 31 March 2018 comprises:					
Non-current assets	-	-	-	88.7	**88.7**
Current assets[3]	247.1	40.0	-	47.9	**335.0**
Current liabilities	-	-	(220.0)	(12.5)	**(232.5)**
Non-current liabilities	-	-	(6,231.7)	(855.9)	**(7,087.6)**
	247.1	**40.0**	**(6,451.7)**	**(731.8)**	**(6,896.4)**

[1] Derivative financial instruments excludes the fair value of energy derivatives of £9.1 million (2017: £24.6 million) as these are not classified as part of net debt, allocated as follows:

	2018 £m	2017 £m
Assets:		
Non-current	**0.9**	0.0
Current	**0.6**	0.0
Liabilities:		
Current	**(3.9)**	(6.2)
Non-current	**(6.7)**	(18.4)
	(9.1)	(24.6)

[2] Non-financing cash flows comprise net cash flows from operating activities of £620.3 million (2017: £612.2 million), plus net cash flows from investing activities of £1,477.3 million (2017: less cash used of £112.1 million) and less dividends paid of £1,943.2 million (2017: £320.3 million).

[3] Current asset investments above comprise £40.0 million (2017: £75.0 million) of short-term deposits with an original maturity of more than three months.

Notes to the Group and Company cash flow statements continued

for the year ended 31 March 2018

(b) Analysis of net debt continued

	Company				
			Liabilities from financing activities		
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2016	**150.4**	**267.3**	**(6,252.6)**	**(705.6)**	**(6,540.5)**
Cash flows					
Interest paid	(233.4)	-	27.7	2.2	**(203.5)**
Issue costs paid	(4.5)	-	4.5	-	**-**
Interest element of finance lease rental payments	(1.3)	-	-	-	**(1.3)**
Increase in amounts borrowed	569.3	-	(569.3)	-	**-**
Repayment of amounts borrowed	(494.0)	-	494.0	-	**-**
Capital element of finance lease rental payments	(5.1)	-	5.1	-	**-**
Decrease in short-term bank deposits	192.3	(192.3)	-	-	**-**
Non-financing cash flows[2]	179.4	-	-	-	**179.4**
	202.7	(192.3)	(38.0)	2.2	**(25.4)**
Movement in interest accrued on debt	-	-	14.3	4.7	**19.0**
Amortisation of issue costs	-	-	(3.1)	-	**(3.1)**
Indexation of borrowings and RPI swaps	-	-	(61.1)	(14.1)	**(75.2)**
Fair value gains and losses	-	-	(69.2)	(54.0)	**(123.2)**
Exchange movements	-	-	(65.4)	-	**(65.4)**
Other non-cash movements	-	-	0.2	-	**0.2**
At 1 April 2017	**353.1**	**75.0**	**(6,474.9)**	**(766.8)**	**(6,813.6)**
Cash flows					
Interest paid	(215.9)	-	25.6	1.8	**(188.5)**
Issue costs paid	(1.7)	-	1.7	-	**-**
Interest element of finance lease rental payments	(0.8)	-	-	-	**(0.8)**
Increase in amounts borrowed	248.6	-	(248.6)	-	**-**
Repayment of amounts borrowed	(247.7)	-	247.7	-	**-**
Repayment of accreted interest on derivatives	(73.9)	-	-	73.9	**-**
Capital element of finance lease rental payments	(5.7)	-	5.7	-	**-**
Decrease in short-term bank deposits	35.0	(35.0)	-	-	**-**
Non-financing cash flows[2]	154.4	-	-	-	**154.4**
	(107.7)	(35.0)	32.1	75.7	**(34.9)**
Movement in interest accrued on debt	-	-	1.6	(2.3)	**(0.7)**
Amortisation of issue costs	-	-	(3.4)	-	**(3.4)**
Indexation of borrowings and RPI swaps	-	-	(110.3)	(26.2)	**(136.5)**
Fair value gains and losses	-	-	48.8	(12.2)	**36.6**
Exchange movements	-	-	54.4	-	**54.4**
At 31 March 2018	**245.4**	**40.0**	**(6,451.7)**	**(731.8)**	**(6,898.1)**
Net debt at 31 March 2018 comprises:					
Non-current assets	-	-	-	88.7	**88.7**
Current assets[3]	245.4	40.0	-	47.9	**333.3**
Current liabilities	-	-	(220.0)	(12.5)	**(232.5)**
Non-current liabilities	-	-	(6,231.7)	(855.9)	**(7,087.6)**
	245.4	**40.0**	**(6,451.7)**	**(731.8)**	**(6,898.1)**

[1] Derivative financial instruments excludes the fair value of energy derivatives of £9.1 million (2017: £24.6 million) as these are not classified as part of net debt, allocated as follows:

	2018 £m	2017 £m
Assets:		
Non-current	**0.9**	0.0
Current	**0.6**	0.0
Liabilities:		
Current	**(3.9)**	(6.2)
Non-current	**(6.7)**	(18.4)
	(9.1)	(24.6)

[2] Non-financing cash flows comprise net cash flows from operating activities of £620.3 million (2017: £612.2 million), plus net cash flows from investing activities of £1,477.3 million (2017: less cash used of £112.1 million) and less dividends paid of £1,943.2 million (2017: £320.3 million).
[3] Current asset investments above comprise £40.0 million (2017: £75.0 million) of short-term deposits with an original maturity of more than three months.

The Group has adopted the disclosure requirements of the Amendments to IAS 7 'Statement of Cash Flows' within the above table. There has been no change to the net cash flows reported by the Group; however, the prior year comparatives in the above table have been represented to comply with amended disclosure requirements.

Notes to the Group financial statements

for the year ended 31 March 2018

1 Accounting policies

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

The Group has adopted the disclosure requirements of the Amendments to IAS 7 'Statement of Cash Flows' within note (b) to the cash flow statements 'Analysis of net debt'. The Group has chosen not to take advantage of the option available when first applying the amendments and, as such, has provided comparative information.

(a) Basis of accounting

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

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

Underlying profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives which the Group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believe is not representative of the underlying operational performance of the business. In order to show the position of the Anglian Water Services Financing Group (AWSF Group) the inter-company interest receivable from Anglian Water Services Holdings Limited has also been excluded as the Company pays dividends to Anglian Water Services Holdings Limited to fund this interest receivable, such that the Company is financially neutral and accordingly the interest does not reflect the underlying performance of the business. The AWSF Group comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc. In addition, following market reform, a non-recurring profit arose on the disposal of the Company's non-household water and water recycling retail business.

(b) Basis of preparation

The Anglian Water Services Group (the Group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the Company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company sales and profit are eliminated fully on consolidation.

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

(c) Foreign currencies

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

(d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. Therefore, the Directors believe that the whole of the Group's activites constitute a single class of business.

(e) Revenue recognition

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

(i) Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based on weighted average water consumption by tariff, which is calculated based on historical billing information.
(ii) Interest income – recognised on a time-proportion basis using the effective interest method.
(iii) Dividend income – recognised when the right to receive payment is established.

(f) Research and development

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

(g) Exceptional items

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

As detailed in note 28, on 1 April 2017 Anglian Water Services Limited completed the sale of the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the Group's ultimate parent undertaking.

The sale was completed for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million which is recognised in the 2017/18 financial statements.

There were no such exceptional items in 2017.

(h) Taxation

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

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

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

(i) Dividends

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

(j) Intangible assets

Intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years, for both computer software and internally generated assets.

(k) Property, plant and equipment

Property, plant and equipment comprises the following:

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

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

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

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

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

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

Non-operational buildings	30–60 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant (including meters)	12–40 years
Vehicles and mobile plant and equipment	3–10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Group financial statements continued

1 Accounting policies continued

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

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

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

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

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

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

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

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

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

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

(p) Trade receivables
Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile.

(q) Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(r) Assets held for sale
Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, the disposal group is deemed held for sale. At this point the gross assets and gross liabilities of the disposal group are shown separately as held for sale. The value of the disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

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

(t) Derivative financial instruments

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

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

At the inception of the hedging transaction the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

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

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

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(u) Provisions

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

(v) Pensions

(i) Defined benefit schemes

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

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

(ii) Defined contribution schemes

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

Notes to the Group financial statements continued

1 Accounting policies continued

(w) New standards, amendments and interpretations not yet adopted
At the date of approval of these financial statements the following standards were in issue but not yet effective. The following standards, once adopted, are expected to have a material impact on the Group's consolidated financial statements:

IFRS 9 'Financial Instruments'
The Group will apply IFRS 9 from 1 April 2018. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end. The Group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships at the date of initial application of IFRS 9, being 1 April 2018.

Classification and measurement
With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39 'Financial Instruments – Recognition and Measurement'. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments:

i. Amortised cost.
ii. Fair value through other comprehensive income (FVTOCI).
iii. Fair value through profit or loss (FVTPL).

Equity investments within the scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect of the classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

There will be no financial impact due to the changes in the classification and measurement of the following financial assets held by the Group: trade receivables, money market deposits, liquidity funds, cash at bank and derivative financial assets.

There will be no change in the accounting for any financial liabilities as no liabilities are held at FVTPL.

Impairment
The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised costs.

In respect of trade receivables, the Group has carried out an analysis of the impairment (or bad debt) charge and economic measures over a six-year period. The Group has concluded that there is no material impact on the bad debt charge as a result of applying IFRS 9.

The application of the expected credit loss model of IFRS 9 will result in greater recognition of credit losses for short-term deposits held with banks. At the date of initial application of IFRS 9, the overall impact is expected to be a decrease in retained earnings of less than £0.1 million. No further impact from impairment is expected to cash or other financial investments.

Hedge accounting
On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies.

An assessment of the Group's hedging relationships under IAS 39 has been performed, and it has been determined that the existing hedge relationships would qualify as continuing hedging relationships under IFRS 9. However the transition provisions allow variations in elections on transition where new cost of hedging provisions apply. Accordingly, the Group has made the following elections as at transition:

- For fair value hedges of sterling debt issuance, the hedges continue with no change and therefore no subsequent financial impact.
- For fair value or cash flow hedges of foreign currency debt, the hedges will continue with IFRS 9 cost of hedging applied on a cross-currency basis from the inception of the hedge designation.
- The cross-currency basis and the movement in cross-currency basis is not currently material to the Group; however, this election best reflects the treatment of currency basis as a cost associated with hedging.

- For pre-issuances hedges of forecast future debt issuances, the hedges will be de-designated and re-designated under IFRS 9 to allow the application of the hedge to aggregate exposures. This would be relevant where foreign currency debt issuances swapped to sterling are more competitive than sterling markets and will allow the hedge to apply to such post-swap positions. There will be no immediate impact on the financial statements at transition.
- For commodity hedges of energy costs, the hedges will be de-designated and re-designated under IFRS 9 to take advantage of the ability to hedge the energy price component of energy costs. This is expected to reduce the ineffectiveness reported on commodity hedges prospectively by allowing the hedge relationship to better reflect the economic risk being hedged. There will be no immediate impact on the financial statements at transition.

IFRS 15 'Revenue from Contracts with Customers'
This standard will be mandatory for the Group's financial statements from 1 April 2018 and, once adopted, will have a material impact on the Group's financial statements in respect of developer contributions as discussed below.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved by a five-step model to be applied to all contracts with customers, except for contracts that are within the scope of other standards such as leases and financial instruments, as summarised below.

i. Identify the contract(s) with a customer.
ii. Identify the performance obligations in the contract.
iii. Determine the transaction price.
iv. Allocate the transaction price to the performance obligations in the contract.
v. Recognise revenue when (or as) the entity satisfies a performance obligation.

Sources of income
The Group's principal source of income is from customers in respect of the provision of water and sewerage services within Anglian Water, the Group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs. Within Anglian Water, revenue is currently split between household, 78 per cent, wholesale non-household, 19 per cent, and other, 3 per cent.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how we recognise the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal. Historically, revenue has been recorded on this basis.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly, revenue will continue to be recognised as water is supplied, based on volumes supplied at the relevant reporting date.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue will be recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers will continue to be recognised on a time basis under IFRS 15.

For measured customers, their bill comprises a charge for usage and a fixed standing charge based on the rateable value of the property. While we currently recognise the variable element of revenue based on estimated usage, the fixed element of the bill income is recognised on a time basis. Under IFRS 15 this approach is not appropriate as there is only one performance obligation, which means both the fixed and variable elements of the bill will be recognised on a usage basis. This has no impact on annual revenues, but will marginally increase revenue in the first six months of the year by less than £5 million.

Non-household revenue is charged based on usage, based on data submitted by the market operator. IFRS 15 will not impact recognition of this income.

Under the recognition rules of IFRS 15, income should only be recognised if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. We have considered recent data that supports our conclusion that de-recognition of income is not appropriate on the grounds of past payment record and current credit worthiness. Our view is that for all occupied properties it is more probable than not that we will collect the income, and therefore it is appropriate to continue to recognise the income. The exception to this is where properties are unoccupied and in these cases income is not recognised.

Notes to the Group financial statements continued

1 Accounting policies continued

(w) New standards, amendments and interpretations not yet adopted *continued*

Developer contributions

A secondary source of income for Anglian Water is developer contributions (grants and contributions) in respect of new connections for water and/or sewerage services. Currently these contributions are initially credited to a deferral account and then released to 'other operating income' over the expected useful life of the related assets.

Discussion is ongoing within the water industry on the treatment of developer contributions under IFRS 15, and if this results in a more appropriate treatment, then the Group may revisit its current assessment of the impact of IFRS 15 on developer contributions as set out below.

The significant components of developer contributions are as follows:

	Value contributed	Released to other operating income	Deferred credit
	2018 £m	2018 £m	March 2018 £m
New connection charges	10.4	2.4	146.8
Self-lay, requisitions and adoption fees	8.3	1.4	86.2
Fair value of assets adopted for nil consideration	20.9	0.6	89.7
Infrastructure charges	17.0	11.7	216.8
Diversions	6.4	-	-
	63.0	**16.1**	**539.5**

(i) New connection charges

The Group has concluded that the developer is the customer, and that the Group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income immediately rather than over the expected useful life of the related assets.

(ii) Self-lay, requisitions and adoption fees

The Group has reached the same conclusion as for new connection charges.

(iii) Fair value of assets adopted for nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the Group, on a nil consideration basis, in exchange for being relieved of any future liability. Contributed assets were specifically covered by IFRIC 18 'Transfers of Assets from Customers' which encouraged recognition of the credit that arises over the life of the related asset. However, with the advent of IFRS 15, which supersedes the guidance in IFRIC 18, the Group has concluded that immediate recognition, rather than deferral, is appropriate since the Group does not have any performance obligation to the developer post adoption.

(iv) Infrastructure charges

Infrastructure charges are a developer's contribution to fund network reinforcement by the Group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the Group has concluded that the developer is the customer, and that the Group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income immediately rather than over the expected useful life of the related assets.

(v) Diversions

Diversions are where a highways agency, or other authority, reimburses the Group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the Group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

The overall impact of the changes to the recognition of developer contributions on the March 2018 income statement would be to increase revenue by £63.0 million, while reducing other operating income by £16.1 million to £nil. In addition, there would be an increase to reserves at March 2018 of £539.5 million arising from the immediate recognition of previously deferred income balances. While the above change in accounting will have an impact on the Group's tax charge, this cannot be quantified at this stage as it is dependent on the overall tax position for the year to 31 March 2019. In particular, there will be a one-off tax charge in respect of the recognition on transition of previously deferred income balances, which will be offset by utilisation of surplus Advance Corporation Tax.

The impact on the March 2018 cash flow statement would be to reclassify developer contributions (grants and contributions received) of £40.4 million from investing activities to operating activities.

IFRS 16 'Leases'
IFRS 16 will replace the current guidance in IAS 17 and IFRIC 4. IFRS 16 requires lessees to recognise on the balance sheet a lease liability, reflecting future lease payments, and a 'right-of-use asset' for the majority of leases, thereby removing the distinction currently made between finance and operating leases under IAS 17. The standard will be effective for the Group's financial statements for the year ending 31 March 2020, and the Group currently has no plans to early adopt this standard.

At 31 March 2018, the Group's future minimum lease payments under non-cancellable operating leases were £31.8 million in respect of properties, mainly office buildings, and £1.7 million in respect of plant and equipment, primarily vehicles.

On adoption of IFRS 16 the Group expects to bring substantially all leases currently treated as operating leases on to the balance sheet and is continuing to assess the financial impact of this change, as well as reviewing system options for recoding lease contracts.

On the balance sheet, property, plant and equipment will be increased by the value of the right-to-use asset, with an increase in borrowings reflecting the future lease payments. In the income statement the Group will record an interest expense on the lease liability and depreciation on the right-of-use asset. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the income statement in the initial years of the lease, and decreasing expenses during the latter part of the lease term. IFRS 16 will also impact the cash flow statement because operating lease payments, previously included within cash generated from operations, will be included within financing activities, split between interest paid and the capital element of lease rental payments.

IFRS 16 allows lessees to apply the standard either retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application. The Group is expecting to use the modified retrospective approach, and will consider the practical expedients available.

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

2 Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

(a) Significant judgements
The areas where the most critical judgements have been applied are as follows:

(i) Capitalised expenditure
Additions to intangible assets, and to property, plant and equipment, include £66.8 million (2017: £58.4 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the Group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

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

(iii) Taxation
The Group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items that will only be resolved once finally agreed with the tax authorities. See notes 7 and 20 for further analysis of the Group's tax charge.

(iv) Pensions
The Group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under IAS 19 'Employee Benefits' the Group has recognised an actuarial gain of £77.4 million (2017: loss of £100.9 million). The main assumptions and associated sensitivities are set out in note 21 of the financial statements.

Notes to the Group financial statements continued

(b) Areas involving estimation

The key areas involving estimation are discussed below.

(i) Measured income accrual

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the period end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.4 million).

(ii) Bad debts

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to judgement (see note 15 for details of the doubtful debts provision).

3 Segmental information

The Directors believe that the whole of the Group's activities constitute a single class of business.

The Group's revenue is wholly generated from within the United Kingdom.

4 Other operating income

Other operating income comprises the amortisation of grants and contributions.

5 Operating costs

	2018 £m	2017 £m
Raw materials and consumables	**16.8**	16.8
Staff costs (see note 8)	**205.8**	196.3
Charge for bad and doubtful debts[1]	**28.9**	30.0
Operating lease rentals		
Properties	**1.4**	1.7
Plant and equipment	**0.3**	0.2
Research and development expenditure	**2.3**	2.5
Contribution to the Anglian Water Assistance Fund	**0.9**	1.1
Other operating costs	**395.5**	377.6
Own work capitalised	**(66.8)**	(58.4)
Profit on disposal of property, plant and equipment[2]	**(4.1)**	(2.5)
Operating costs before depreciation and amortisation	**581.0**	565.3
Depreciation of property, plant and equipment	**298.0**	276.4
Amortisation of intangible assets	**37.5**	34.8
Depreciation and amortisation	**335.5**	311.2
Operating costs	**916.5**	876.5

[1] The 2017 bad debt charge of £30.0 million contains £1.7 million relating to non-household customers that were transferred to Anglian Water Business (National) Limited in April 2017.
[2] The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

During the year the Group obtained the following services from the Company's auditors:

	2018 £m	2017 £m
Fees payable to the Company's auditors for the audit of the Company and the consolidated financial statements	**0.2**	0.2
Fees payable to the Company's auditors for other services		
Audit-related assurance services	**0.2**	0.1
Other non-audit services	**0.3**	0.3
	0.7	0.6

The Company's auditor during the year ended 31 March 2018 was Deloitte LLP. Audit-related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results. Other non-audit services include £0.3 million for consulting services that relate to supporting management in strategy development for asset management and operational activities as well as providing treasury accounting advice. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors.

Notes to the Group financial statements continued

6 Net finance costs

	2018 £m	2017 £m
Finance income		
Interest income on short-term bank deposits	**1.6**	2.0
Other interest income[1]	**191.8**	192.3
	193.4	194.3
Finance costs		
Interest expense on other loans including financing expenses	**(218.9)**	(212.8)
Indexation	**(136.5)**	(75.2)
Amortisation of issue costs	**(3.5)**	(3.1)
Interest expense on finance leases	**0.4**	(1.2)
Unwinding of discount on provisions	**(0.3)**	(1.1)
Defined benefit pension scheme interest (charge)/credit	**(1.8)**	0.6
Total finance costs	**(360.6)**	(292.8)
Less: amounts capitalised on qualifying assets	**16.5**	9.6
	(344.1)	(283.2)
Fair value gains/(losses) on derivative financial instruments		
Fair value gains on energy hedges	**7.3**	7.0
Hedge ineffectiveness on cash flow hedges	**(1.2)**	0.8
Hedge ineffectiveness on fair value hedges[2]	**(0.8)**	4.0
Amortisation of adjustment to debt in fair value hedge	**1.7**	0.1
Derivative financial instruments not designated as hedges	**114.3**	(126.9)
Transfer from hedging reserve arising from discontinuation of cash flow hedges	**(3.7)**	(1.0)
	117.6	(116.0)
Net finance costs	**(33.1)**	(204.9)

[1] Other interest income comprises inter-company interest income from Anglian Water Services Holdings Limited of £191.8 million (2017: £192.3 million).
[2] Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £72.7 million (2017: £46.5 million), offset by fair value losses of £73.5 million on hedged risks (2017: £42.5 million).

7 Taxation

	2018 £m	2017 £m
Current tax:		
In respect of the current period	**44.8**	61.4
Adjustments in respect of prior periods	**(0.8)**	40.1
Total current tax charge	**44.0**	101.5
Deferred tax:		
Origination and reversal of temporary differences	**(17.6)**	(56.8)
Adjustments in respect of prior periods	**1.8**	(28.3)
Reduction in corporation tax rate	**(0.5)**	(54.3)
Total deferred tax credit	**(16.3)**	(139.4)
Total tax charge/(credit) on profit on continuing operations	**27.7**	(37.9)

The current tax charge for the year includes payments to other Group companies for losses surrendered from those companies and also reflects the disclaiming of capital allowances to utilise the surplus Advance Corporation Tax (ACT) asset held on the balance sheet. This surplus ACT asset is expected to be fully utilised by March 2019.

The current tax adjustment in respect of previous periods in 2018 relates mainly to the agreement of prior year tax computations. In 2017, the adjustment related to the effect of the capital allowances disclaimers and the restatement of opening deferred tax balances.

The deferred tax adjustments in respect of previous periods for 2018 relate to adjustments to prior year capital allowances claims. In 2017, the adjustment related to the effect of the capital allowance disclaimers and the restatement of the opening deferred tax balances.

The corporation tax rate will reduce from 19 per cent to 17 per cent effective from 1 April 2020. To reflect reversals during the period to 31 March 2020 we have used a composite rate of 17.07 per cent (2017: 17.08 per cent) to re-measure the deferred tax balances.

The tax charge/(credit) on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2017: 20 per cent) to the profit before tax from continuing operations as follows:

	2018 £m	2017 £m
Profit before tax from continuing operations	**320.0**	160.4
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19 per cent (2017: 20 per cent)	**60.8**	32.1
Effects of recurring items		
Items not deductible for tax purposes:		
- Depreciation and losses on assets not eligible for tax relief	**0.7**	1.5
- Disallowable expenditure	**0.7**	0.4
	62.2	34.0
Effects of non-recurring items		
Profit on sale of business subject to statutory exemption	**(0.9)**	-
Group relief not paid for[1]	**(36.4)**	(38.5)
Reduction in corporation tax rate	**(0.5)**	(54.3)
Effects of differences between rates of current and deferred tax	**2.3**	9.1
Adjustments in respect of prior periods	**1.0**	11.8
Tax charge/(credit) for the year	**27.7**	(37.9)

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

	2018 £m	2017 £m
Deferred tax:		
Defined benefit pension schemes	**13.3**	(17.2)
Cash flow hedges	**3.1**	(3.8)
Reduction in corporation tax rate – pension	**-**	0.4
Reduction in corporation tax rate – cash flow hedges	**-**	1.2
Total tax charge/(credit) recognised in other comprehensive income	**16.4**	(19.4)

[1] Group relief not paid for is listed as a non-recurring item due to the inter-company loan repayment on 29 March 2018.

Notes to the Group financial statements continued

8 Employee information and Directors' emoluments

(a) Employee information

	2018 £m	2017 £m
Staff costs for the Group		
Wages and salaries	**171.2**	165.3
Social security costs	**16.4**	16.6
Pension costs – defined contribution (see note 21)	**8.6**	7.6
Pension costs – defined benefit (see note 21)	**9.6**	6.8
	205.8	196.3

Staff costs for the year ended 31 March 2018 include £48.0 million (2017: £44.9 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors):

	2018	2017
Water Services	**776**	716
Water Recycling Services	**1,554**	1,495
Customer Services	**505**	616
Asset Management and Other	**1,765**	1,635
	4,600	4,462

(b) Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**2,562**	2,507
Pension costs – defined contribution	**-**	-
Benefits received under long-term incentive plans	**1,159**	525

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2017: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to four Directors (2017: four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited group undertakings.

(c) Highest paid Director

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £6,686 (2017: £6,720).

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on pages 116 to 135.

	2018 £'000	2017 £'000
Highest paid Director's emoluments	**713**	775
Highest paid Director's amounts received under long-term incentive schemes	**466**	157
Accrued defined benefit at year end	**-**	-

9 Profit of the parent company

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the Company, is £291.9 million (2017: £197.7 million).

10 Dividends

	2018 £m	2017 £m
Dividends available for distribution to investors in the ultimate parent company		
Paid by the Group:		
Previous year final dividend	**61.1**	100.0
Current year interim dividend	**25.0**	28.0
	86.1	128.0
Dividends not available for distribution to investors in the ultimate parent company		
Dividend paid by the Company in order to service internal interest	**191.8**	191.8
Dividend committed to be paid by the Company in order to service internal interest	**-**	0.5
One-off dividend paid by the Company in order to settle an inter-company loan	**1,602.6**	-
Special dividend to fund the transfer of the non-household retail business	**62.2**	-

Dividends described as not available for distribution to investors in the ultimate parent company refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon.

Anglian Water Services Holdings Limited (AWSH) was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies, referred to as the Anglian Water Services Financing Group or AWSFG and which also includes Anglian Water Services Overseas Holdings Limited and Anglian Water Services Financing Plc, protects customers and our debt providers from risks associated with other Anglian Water Group companies outside of the Anglian Water Services regulated 'ring fence'. This strengthens Anglian Water Services Limited's credit profile and credit ratings, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills. As part of establishing the structure, an inter-company loan of £1,609.1 million was put in place between Anglian Water Services Limited and AWSH (£6.5 million of which was repaid during the year ended 31 March 2012).

A dividend of £191.8 million (2017: £192.3 million) was paid to AWSH, in order for AWSH to service the interest payable to the Company on the inter-company loan of £1,602.6 million (2017: £1,602.6 million) mentioned above. In addition, the prior year dividend committed of £0.5 million was paid in April 2017. These dividends do not leave the Anglian Water Services regulatory ring-fenced group.

On 29 March 2018, following our commitment to simplify our corporate structure, a restructuring dividend of £1,602.6 million (2017: £nil) was paid by Anglian Water Services Limited which flowed up to AWSH, in order for AWSH to repay the inter-company loan. The funds flowed back to Anglian Water Services Limited on the same day AWSH settled the loan.

From 1 April 2018, following the settlement of the £1,602.6 million inter-company loan, the inter-company interest and dividend payments will no longer be necessary.

On 3 April 2017, the Company paid a special dividend of £62.2 million to help fund the statutory transfer of the non-household retail business from Anglian Water Services Limited to Anglian Water Business (National) Limited. These funds were not available for distribution to investors in the ultimate parent company.

The Directors have proposed a final dividend for the year ended 31 March 2018 of £6.80 per share, which is a total of £68.0 million. This distribution has not been accounted for within the 2018 financial statements as it was proposed and approved after the year end.

Notes to the Group financial statements continued

11 Intangible assets

	Group and Company		
	Computer software £m	Internally generated other £m	Total £m
Cost			
At 1 April 2016	365.3	124.7	**490.0**
Additions	35.1	13.1	**48.2**
Disposals	(0.3)	(65.3)	**(65.6)**
Transferred to disposal group	(3.2)	-	**(3.2)**
At 31 March 2017	**396.9**	**72.5**	**469.4**
Additions	45.7	20.7	**66.4**
Disposals	(101.8)	-	**(101.8)**
At 31 March 2018	**340.8**	**93.2**	**434.0**
Accumulated amortisation			
At 1 April 2016	(277.0)	(83.9)	**(360.9)**
Charge for the year	(21.6)	(13.2)	**(34.8)**
Disposals	0.3	65.3	**65.6**
Transferred to disposal group	0.1	-	**0.1**
At 31 March 2017	**(298.2)**	**(31.8)**	**(330.0)**
Charge for the year	(23.5)	(14.0)	**(37.5)**
Disposals	101.8	-	**101.8**
At 31 March 2018	**(219.9)**	**(45.8)**	**(265.7)**
Net book amount			
At 31 March 2018	**120.9**	**47.4**	**168.3**
At 31 March 2017	98.7	40.7	139.4

Internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £2.0 million (2017: £1.1 million) of interest that has been capitalised on qualifying assets at an average rate of 5.0 per cent (2017: 4.3 per cent).

Included with intangible assets above are assets under construction of £61.4 million (2017: £26.1 million) which are not yet subject to amortisation.

The continual development of our IT infrastructure and software resulted in the disposal during the year of intangible assets with original cost and accumulated amortisation of £101.8 million (nil net book value).

12 Property, plant and equipment

	Group and Company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2016	46.3	6,465.0	5,597.4	834.9	215.1	**13,158.7**
Additions	-	-	-	-	368.7	**368.7**
Transfers on commissioning	0.6	101.4	106.2	56.6	(264.8)	**-**
Disposals	-	-	(4.9)	(69.4)	-	**(74.3)**
Transfer to disposal group	-	-	-	(0.6)	-	**(0.6)**
At 31 March 2017	**46.9**	**6,566.4**	**5,698.7**	**821.5**	**319.0**	**13,452.5**
Additions	-	-	-	-	432.9	**432.9**
Transfers on commissioning	0.1	130.2	130.9	45.1	(306.3)	**-**
Disposals	(0.1)	(2.7)	(31.9)	(67.4)	-	**(102.1)**
At 31 March 2018	**46.9**	**6,693.9**	**5,797.7**	**799.2**	**445.6**	**13,783.3**
Accumulated depreciation						
At 1 April 2016	(6.5)	(562.8)	(2,583.2)	(580.1)	-	**(3,732.6)**
Charge for the year	(0.4)	(53.4)	(175.1)	(47.5)	-	**(276.4)**
Disposals	-	-	4.9	69.2	-	**74.1**
Transfer to disposal group	-	-	-	0.1	-	**0.1**
At 31 March 2017	**(6.9)**	**(616.2)**	**(2,753.4)**	**(558.3)**	**-**	**(3,934.8)**
Charge for the year[1]	(0.4)	(56.3)	(192.1)	(49.2)	-	**(298.0)**
Disposals	-	2.7	31.9	66.9	-	**101.5**
At 31 March 2018	**(7.3)**	**(669.8)**	**(2,913.6)**	**(540.6)**	**-**	**(4,131.3)**
Net book amount						
At 31 March 2018	**39.6**	**6,024.1**	**2,884.1**	**258.6**	**445.6**	**9,652.0**
At 31 March 2017	40.0	5,950.2	2,945.3	263.2	319.0	9,517.7

[1] The depreciation charge for 2018 includes £10.7 million (2017: nil) in respect of the write-off of redundant plant and equipment.

Property, plant and equipment at 31 March 2018 includes land of £27.4 million (2017: £27.4 million) which is not subject to depreciation. Included within additions above is £14.5 million (2017: £8.5 million) of interest that has been capitalised on qualifying assets at an average rate of 5.0 per cent (2017: 4.3 per cent).

Assets held under finance leases

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

	2018 £m	2017 £m
Net book amount at 31 March	**46.6**	48.9

Notes to the Group financial statements continued

13 Investments

	Loan to parent company £m	Total £m
Cost		
At 1 April 2016 and at 31 March 2017	**1,602.6**	**1,602.60**
Cash received in settlement	(1,602.6)	(1,602.6)
At 31 March 2018	**-**	**-**

On 29 March 2018 the loan of £1,602.6 million, made by the Company to Anglian Water Services Holdings Limited, was settled in full. The loan was settled earlier than the due date in order to simplify the group structure and to remove the associated round-trip interest charge and dividend payments in future years. Interest on the loan was charged up to the settlement date at the rate of 12 per cent per annum.

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2018. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

14 Inventories

	Group and Company	
	2018 £m	2017 £m
Raw materials and consumables	**10.0**	9.3
	10.0	9.3

15 Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Trade receivables	**335.8**	327.9	**335.8**	327.9
Provision for impairment	**(183.1)**	(185.3)	**(183.1)**	(185.3)
Net trade receivables	**152.7**	142.6	**152.7**	142.6
Amounts owed by other Anglian Water Group Limited group undertakings	**0.4**	1.4	**0.4**	1.4
Other amounts receivable	**15.5**	16.7	**15.5**	16.7
Prepayments and accrued income	**310.3**	269.2	**310.3**	269.2
	478.9	429.9	**478.9**	429.9

Prepayments and accrued income as at 31 March 2018 includes water and sewerage income not yet billed of £302.0 million (2017: £260.5 million). In addition, at 31 March 2017, £45.0 million of accrued income was included within assets classified as held for sale (see note 28).

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

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water Services' customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and waste water services to non-household customers was transferred to a relatively small number of licenced retailers. The principal retailer that Anglian Water transacts with is WAVE. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers.

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

	Group and Company	
	2018 £m	2017 £m
Provision at the beginning of the year	**185.3**	197.5
Charge for bad and doubtful debts	**28.9**	30.0
Amounts written off during the year	**(31.1)**	(40.5)
Transferred to disposal group	**-**	(1.7)
At 31 March	**183.1**	185.3

Included in trade receivables are balances with a carrying amount of £108.2 million (2017: £112.4 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances. In addition, at 31 March 2017, £30.7 million of balances past due at the reporting date were included within assets classified as held for sale (see note 28).

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

	Group and Company	
	2018 £m	2017 £m
Within one year	**74.3**	76.5
Between one and two years	**16.5**	17.3
Between two and three years	**8.3**	8.8
Between three and four years	**3.2**	3.4
After four years	**5.9**	6.4
	108.2	112.4

At 31 March 2018 and 31 March 2017, the Group had no trade receivables that were individually impaired.

Notes to the Group financial statements continued

16 Trade and other payables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current				
Trade payables	**29.7**	35.8	**29.7**	36.2
Capital creditors and accruals	**115.6**	89.8	**115.6**	89.4
Amounts owed to other Anglian Water Group Limited group undertakings	**0.1**	0.6	**46.4**	46.6
Receipts in advance	**292.9**	262.3	**292.9**	262.3
Other taxes and social security	**4.3**	4.1	**4.3**	4.1
Accruals and deferred income	**69.6**	59.8	**69.6**	59.7
Deferred grants and contributions	**16.0**	14.9	**16.0**	14.9
	528.2	467.3	**574.5**	513.2
Non-current				
Deferred grants and contributions	**523.5**	484.0	**523.5**	484.0
	523.5	484.0	**523.5**	484.0

Receipts in advance includes £252.9 million (2017: £227.8 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year. In addition, at 31 March 2017, £10.2 million of amounts received from customers in respect of bills that fall due in the following year were included within liabilities directly associated with assets held for sale (see note 28).

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report.

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

17 Loans and other borrowings

		Group		Company	
	Notes	**2018 £m**	2017 £m	**2018 £m**	2017 £m
£250 million 5.837% fixed rate 2022	d f	**258.5**	258.2	**258.5**	258.2
£200 million 6.875% fixed rate 2023	d f	**208.4**	208.4	**208.4**	208.4
£200 million 6.625% fixed rate 2029	d f	**202.7**	202.7	**202.7**	202.7
£246 million 6.293% fixed rate 2030	b d f	**254.1**	255.3	**254.1**	255.3
£150 million 5.5% fixed rate 2017/2040[1]	b d e f g	**-**	155.5	**-**	155.5
£150 million 4.125% index-linked 2020	c d f	**249.3**	240.3	**249.3**	240.3
£75 million 3.666% index-linked 2024	c d f	**118.3**	114.0	**118.3**	114.0
£200 million 3.07% index-linked 2032	c d f	**313.4**	301.9	**313.4**	301.9
£60 million 3.07% index-linked 2032	c d f	**95.2**	91.7	**95.2**	91.7
Finance leases	b d f g	**27.8**	33.7	**27.8**	33.7
£402 million 2.4% index-linked 2035	c d f	**590.4**	568.3	**590.4**	568.3
£50 million 1.7% index-linked 2046	c d f	**70.4**	67.9	**70.4**	67.9
£50 million 1.7% index-linked 2046	c d f	**70.5**	68.2	**70.5**	68.2
£40 million 1.7146% indexation bond 2056	c d f	**56.8**	54.7	**56.8**	54.7
£50 million 1.6777% indexation bond 2056	c d f	**71.0**	68.4	**71.0**	68.4
£60 million 1.7903% indexation bond 2049	c d f	**85.1**	82.0	**85.1**	82.0
£100 million 1.3784% indexation bond 2057	c d f	**141.2**	136.6	**141.2**	136.6
£50 million 1.3825% indexation bond 2056	c d f	**70.6**	68.3	**70.6**	68.3
£100 million Class A wrapped floating rate bonds 2057	d f	**100.0**	100.0	**100.0**	100.0
£75 million 1.449% indexation bond 2062	c d f	**100.1**	97.6	**100.1**	97.6
£50 million 1.52% indexation bond 2055	c d f	**66.7**	65.0	**66.7**	65.0
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	**103.1**	112.7	**103.1**	112.7
£110 million Class A unwrapped floating rate bonds 2043	d f	**110.1**	110.1	**110.1**	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	a b d f	**35.2**	37.5	**35.2**	37.5
£25 million 6.875% private placements 2034	d f	**25.0**	25.0	**25.0**	25.0
EIB £50 million 1.626% index-linked term facility 2019	c d f	**65.4**	62.9	**65.4**	62.9
EIB £50 million 1.3% index-linked term facility 2020	c f	**64.2**	61.9	**64.2**	61.9
£130 million 2.262% indexation bond 2045	c d f	**163.0**	157.0	**163.0**	157.0
US$160 million 4.52% private placements 2021	a b d f	**118.7**	137.3	**118.7**	137.3
US$410 million 5.18% private placements 2021	a b d f	**296.9**	331.4	**296.9**	331.4
EIB £75 million 0.53% index-linked term facility 2027[2]	c d f g	**78.6**	84.2	**78.6**	84.2
EIB £75 million 0.79% index-linked term facility 2027[2]	c d f g	**78.6**	84.2	**78.6**	84.2
£250 million 4.5% fixed rate 2027	d f	**252.1**	251.9	**252.1**	251.9
£15 million 1.37% index-linked private placements 2022	c d f	**17.1**	16.5	**17.1**	16.5
£50 million 2.05% index-linked private placements 2033	c d f	**57.3**	55.2	**57.3**	55.2
£25.5 million 4.195% private placements 2017	d f	**-**	26.0	**-**	26.0
£31.9 million 3.983% private placements 2022	d f	**32.4**	32.4	**32.4**	32.4
Sub-total carried forward		**4,648.2**	4,824.9	**4,648.2**	4,824.9

Notes to the Group financial statements continued

17 Loans and other borrowings continued

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Sub-total brought forward		**4,648.2**	4,824.9	**4,648.2**	4,824.9
£73.3 million 4.394% private placements 2028	d f	**74.8**	74.7	**74.8**	74.7
£22.3 million 3.983% private placements 2022	d f	**22.6**	22.6	**22.6**	22.6
US$47 million 5% private placements 2022	a b d f	**34.2**	38.2	**34.2**	38.2
EIB £150 million 0% index-linked term facility 2028[3]	c d f	**169.5**	163.4	**169.5**	163.4
£200 million Class B 4.5% fixed rate 2026	b d f	**206.1**	209.8	**206.1**	209.8
£35 million 1.141% index-linked bond 2042	c d f	**39.2**	37.7	**39.2**	37.7
US$170 million 3.84% private placements 2023	a b d f	**123.5**	142.1	**123.5**	142.1
£93 million 3.537% private placements 2023	d f	**94.2**	94.1	**94.2**	94.1
US$160 million 4.99% private placements 2023	a b d f	**115.6**	129.0	**115.6**	129.0
EIB £65 million 0.41% index-linked term facility 2029[4]	c d f	**71.3**	68.7	**71.3**	68.7
EIB Tranche 2 £125 million 0.1% 2029[4]	c f	**135.8**	130.8	**135.8**	130.8
EIB Tranche 3 £60 million 0.01% 2030[5]	c f	**64.9**	62.5	**64.9**	62.5
RCF £500 million	d f	**(2.0)**	52.6	**(2.0)**	52.6
RCF £100 million bilaterals	d f	**(0.1)**	(0.3)	**(0.1)**	(0.3)
US$150 million 3.29% private placements 2026	a b d	**102.9**	117.1	**102.9**	117.1
£55 million 2.93% fixed rate private placements 2026	d f	**54.8**	54.8	**54.8**	54.8
£20 million 2.93% fixed rate private placements 2026	d f	**20.0**	19.9	**20.0**	19.9
£35 million floating rate private placements 2031	d f	**34.5**	34.5	**34.5**	34.5
£200 million Class B 2.6225% fixed rate 2027	b d f	**197.3**	197.8	**197.3**	197.8
£250 million Green Bond 1.625% 2025	b d f	**244.4**	-	**244.4**	-
Total loans and other borrowings		**6,451.7**	6,474.9	**6,451.7**	6,474.9
Included in:					
Current liabilities		**220.0**	278.4	**220.0**	278.4
Non-current liabilities		**6,231.7**	6,196.5	**6,231.7**	6,196.5

1 This bond contained an issuer call option whereby the bond was redeemed on 10 October 2017 for 100 per cent of the nominal amount of the bond.
2 These instruments are amortising from 2017 until the date of maturity shown.
3 This instrument is amortising from 2018 until the date of maturity shown.
4 This instrument is amortising from 2019 until the date of maturity shown.
5 These instruments are amortising from 2020 until the date of maturity shown.

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

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

(c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI). The increase in the capital value of index-linked loans during the year of £110.3 million (2017: £57.2 million) has been taken to the income statement as part of interest payable.

(d) These loans are shown net of issue costs of £30.7 million (2017: £31.0 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

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

(f) A security agreement, dated 30 July 2002, was made between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) under which a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2018, this charge applies to £6,451.7 million (2017: £6,474.9 million) of the debt listed above.

(g) Amounts are repayable wholly or partly within one year.

With the exception of issue costs capitalised and the finance leases, all of the Company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

18 Financial instruments

	Group				
Financial assets by category	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to-maturity investments £m	Total £m
At 31 March 2018					
Investments					
Current	**-**	**-**	**-**	**40.0**	**40.0**
Cash and cash equivalents					
Current	**-**	**-**	**247.1**	**-**	**247.1**
Trade and other receivables					
Current	**-**	**-**	**470.6**	**-**	**470.6**
Derivative financial instruments					
Current	**2.5**	**46.0**	**-**	**-**	**48.5**
Non-current	**7.6**	**82.0**	**-**	**-**	**89.6**
	10.1	**128.0**	**717.7**	**40.0**	**895.8**
At 31 March 2017					
Investments					
Current	-	-	-	75.0	75.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	354.8	-	354.8
Trade and other receivables					
Current	-	-	421.0	-	421.0
Derivative financial instruments					
Current	1.9	10.7	-	-	12.6
Non-current	12.7	243.4	-	-	256.1
	14.6	254.1	2,378.4	75.0	2,722.1

Notes to the Group financial statements continued

18 Financial instruments continued

Financial assets by category continued	Company				
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to-maturity investments £m	Total £m
At 31 March 2018					
Investments					
Current	**-**	**-**	**-**	**40.0**	**40.0**
Cash and cash equivalents					
Current	**-**	**-**	**245.4**	**-**	**245.4**
Trade and other receivables					
Current	**-**	**-**	**470.6**	**-**	**470.6**
Derivative financial instruments					
Current	**2.5**	**46.0**	**-**	**-**	**48.5**
Non-current	**7.6**	**82.0**	**-**	**-**	**89.6**
	10.1	**128.0**	**716.0**	**40.0**	**894.1**
At 31 March 2017					
Investments					
Current	-	-	-	75.0	75.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	353.1	-	353.1
Trade and other receivables					
Current	-	-	421.0	-	421.0
Derivative financial instruments					
Current	1.9	10.7	-	-	12.6
Non-current	12.7	243.4	-	-	256.1
	14.6	254.1	2,376.7	75.0	2,720.4

Trade and other receivables above exclude prepayments.

Financial liabilities by category	Group Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2018				
Borrowings				
Current	**-**	**-**	**220.0**	**220.0**
Non-current	**-**	**-**	**6,231.7**	**6,231.7**
Trade and other payables				
Current	**-**	**-**	**219.3**	**219.3**
Derivative financial instruments				
Current	**14.7**	**1.7**	**-**	**16.4**
Non-current	**755.9**	**106.7**	**-**	**862.6**
	770.6	**108.4**	**6,671.0**	**7,550.0**
At 31 March 2017				
Current	-	-	278.4	278.4
Non-current	-	-	6,196.5	6,196.5
Trade and other payables				
Current	-	-	190.1	190.1
Derivative financial instruments				
Current	12.5	3.8	-	16.3
Non-current	910.9	132.9	-	1,043.8
	923.4	136.7	6,665.0	7,725.1

Notes to the Group financial statements continued

18 Financial instruments continued

Financial liabilities by category continued	Company			
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2018				
Borrowings				
Current	**-**	**-**	**220.0**	**220.0**
Non-current	**-**	**-**	**6,231.7**	**6,231.7**
Trade and other payables				
Current	**-**	**-**	**265.6**	**265.6**
Derivative financial instruments				
Current	**14.7**	**1.7**	**-**	**16.4**
Non-current	**755.9**	**106.7**	**-**	**862.6**
	770.6	**108.4**	**6,717.3**	**7,596.3**
At 31 March 2017				
Borrowings				
Current	-	-	278.4	278.4
Non-current	-	-	6,196.5	6,196.5
Trade and other payables				
Current	-	-	236.0	236.0
Derivative financial instruments				
Current	12.5	3.8	-	16.3
Non-current	910.9	132.9	-	1,043.8
	923.4	136.7	6,710.9	7,771.0

Trade and other payables above exclude deferred grants and contributions and receipts in advance.

Derivative financial instruments	Group and Company 2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	**-**	**(96.7)**	-	(115.3)
Cross-currency interest rate swaps	**38.9**	**(1.2)**	102.4	-
Energy swaps	**-**	**-**	0.1	(21.4)
	38.9	**(97.9)**	102.5	(136.7)
Designated as fair value hedges				
Interest rate swaps	**8.9**	**(7.7)**	14.5	-
Cross-currency interest rate swaps	**80.2**	**(2.7)**	137.2	-
	89.1	**(10.4)**	151.7	-
Derivative financial instruments designated as hedges	**128.0**	**(108.3)**	254.2	(136.7)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**8.6**	**(221.4)**	14.5	(235.4)
RPI swaps	**-**	**(538.7)**	-	(684.7)
Energy swaps	**1.5**	**(10.6)**	-	(3.3)
Total derivative financial instruments	**138.1**	**(879.0)**	268.7	(1,060.1)
Derivative financial instruments can be analysed as follows:				
Current	**48.5**	**(16.4)**	12.6	(16.3)
Non-current	**89.6**	**(862.6)**	256.1	(1,043.8)
	138.1	**(879.0)**	268.7	(1,060.1)

Notes to the Group financial statements continued

18 Financial instruments continued

Derivative financial instruments continued

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a loss of £1.2 million (2017: gain of £0.8 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a loss of £0.8 million (2017: gain of £4.0 million).

The notional principal amount plus RPI of the outstanding interest rate swap contracts, including the GBP leg of cross-currency interest rate swap contracts below, at 31 March 2018 was £4,242.1 million (2017: £4,053.5 million) and there were no outstanding swaptions at 31 March 2017.

The notional foreign currency principal amount of the outstanding cross-currency interest rate swap contracts at 31 March 2018 was USD 1,097.0 million (2017: USD 1,097.0 million), EUR nil (2017: EUR nil), JPY 20.0 billion (2017: JPY 20.0 billion).

At 31 March 2018 the fixed interest rates vary from 2.840 per cent to 5.985 per cent, floating rates vary from 0.7118 per cent (LIBOR plus 0.0bp) to 4.115 per cent (LIBOR plus 267.5bp) and index-linked interest rates vary from 0.8557 per cent plus RPI to 2.970 per cent plus RPI. Gains and losses recognised in the hedging reserve in equity on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within operating costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions, the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in the hedging reserve in equity on energy hedges will be released to the income statement within finance costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IAS 39 the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the period ended 31 March 2018 (2017: £nil).

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

	Group and Company	
	2018 %	2017 %
Borrowings – GBP	**5.9**	4.8
Borrowings – USD	**4.0**	3.9
Borrowings – JPY	**1.2**	1.4

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

	Group and Company	
	2018 %	2017 %
Fixed	**5.7**	5.7
Floating	**2.0**	1.2
Indexed	**5.8**	4.3

Finance leases

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

	Group and Company	
	2018 £m	2017 £m
Within one year	**6.5**	6.2
Between one and five years	**22.1**	28.5
After five years	**0.4**	0.6
	29.0	35.3
Future finance charges on finance leases	**(1.2)**	(1.6)
Present value of finance lease liabilities	**27.8**	33.7

Fair value of financial assets and liabilities	Group			
	2018 Book value £m	**2018 Fair value £m**	2017 Book value £m	2017 Fair value £m
Cash and cash equivalents	**247.1**	**247.1**	354.8	354.8
Current asset investments	**40.0**	**40.0**	75.0	75.0
Borrowings				
Current	**(220.0)**	**(222.6)**	(278.4)	(287.2)
Non-current	**(6,231.7)**	**(7,687.6)**	(6,196.5)	(8,107.4)
Derivative financial instruments				
Current	**43.7**	**43.7**	11.0	11.0
Non-current	**(236.9)**	**(236.9)**	(93.2)	(93.2)
RPI swaps				
Current	**(8.4)**	**(8.4)**	(8.5)	(8.5)
Non-current	**(530.2)**	**(530.2)**	(676.1)	(676.1)
Net debt	**(6,896.4)**	**(8,354.9)**	(6,811.9)	(8,731.6)
Non-current asset investments	**-**	**-**	1,602.6	2,985.3
Energy hedging derivatives	**(9.1)**	**(9.1)**	(24.6)	(24.6)
Other financial liabilities	**-**	**-**	-	(0.3)
	(6,905.5)	**(8,364.0)**	(5,233.9)	(5,771.2)

Fair value of financial assets and liabilities	Company			
	2018 Book value £m	**2018 Fair value £m**	2017 Book value £m	2017 Fair value £m
Cash and cash equivalents	**245.4**	**245.4**	353.1	353.1
Current asset investments	**40.0**	**40.0**	75.0	75.0
Borrowings				
Current	**(220.0)**	**(222.6)**	(278.4)	(287.2)
Non-current	**(6,231.7)**	**(7,687.6)**	(6,196.5)	(8,107.4)
Derivative financial instruments				
Current	**43.7**	**43.7**	11.0	11.0
Non-current	**(236.9)**	**(236.9)**	(93.2)	(93.2)
RPI swaps				
Current	**(8.4)**	**(8.4)**	(8.5)	(8.5)
Non-current	**(530.2)**	**(530.2)**	(676.1)	(676.1)
Net debt	**(6,898.1)**	**(8,356.6)**	(6,813.6)	(8,733.3)
Non-current asset investments	**-**	**-**	1,602.6	2,985.3
Energy hedging derivatives	**(9.1)**	**(9.1)**	(24.6)	(24.6)
Other financial liabilities	**-**	**-**	-	(0.3)
	(6,907.2)	**(8,365.7)**	(5,235.6)	(5,772.9)

Notes to the Group financial statements continued

18 Financial instruments continued

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

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

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

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

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

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly. The future cash flows have been discounted at a rate that reflects credit risk.

Control of treasury

The Treasury team, which reports directly to the Managing Director of Finance and Non-Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange, for the Group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group. The Treasury function's activities include the following:

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

Financing structure

The Group's regulated water and water recycling business, Anglian Water, is funded predominantly by debt in the form of long term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2018 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 78.1 per cent (2017: 79.0 per cent).

Borrowing covenants

All of the Anglian Water Services Group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing Group which comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

The Treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in October 2016 and treasury matters are reported to the Board each month.

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

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

The Group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy. These transactions hedge risks to which the Group is exposed as follows:

Fair value hedges
Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market interest rates.

Cash flow hedges
Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. In addition forward energy and interest rate contracts are also used to hedge anticipated future electricity and interest cash flows.

Derivative financial instruments not designated as hedges
The Group does not utilise derivatives for trading purposes but due to the complex nature of hedge accounting under IAS 39 a subset of the derivative portfolio does not qualify for hedge accounting. These principally relate to RPI swaps, interest rate swaps, swaptions and energy swaps.

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

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

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

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

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

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

	Group and Company	
	2018 £m	2017 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in interest rates	**200.8**	251.3
1% decrease in interest rates	**(326.9)**	(406.0)

The following assumptions were made in calculating the interest rate sensitivity analysis:
- Cash flow and fair value hedge relationships remain effective.
- The main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions which are not hedge accounted.
- Cash flow sensitivity is calculated on floating interest rate net debt.
- All other factors are held constant.

Notes to the Group financial statements continued

18 Financial instruments continued

(iii) Inflation rate risk
The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which until March 2020 are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for index-linked debt of between 30 per cent and 55 per cent of total debt.

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

Debt instruments
The analysis below shows the impact of a one per cent change in RPI over the 12-month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis, which varies from three to 14 months, and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to 14 months earlier.

	Group and Company	
	2018 £m	2017 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(25.3)**	(27.7)
1% decrease in RPI	**25.2**	27.6

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

	Group and Company	
	2018 £m	2017 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(485.8)**	(297.3)
1% decrease in RPI	**208.3**	203.7

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

The Group has used a combination of forward contracts and electricity swap contracts to fix the price of a portion of its anticipated electricity usage out to the end of AMP6.

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

	Group and Company	
	2018 £m	2017 £m
Increase/(decrease) in profit before tax and in equity		
10% increase in commodity prices	**8.4**	9.4
10% decrease in commodity prices	**(8.4)**	(9.4)

(b) Credit risk
Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

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

All cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher.

In the case of derivatives, the following table sets out the Group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column below.

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long term) or A1 (short term) by Standard & Poor's, Moody's or Fitch.

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2018					
Derivative financial assets	**184.1**	**(46.0)**	**138.1**	**(84.9)**	**53.2**
Derivative financial liabilities	**(925.0)**	**46.0**	**(879.0)**	**84.9**	**(794.1)**
At 31 March 2017					
Derivative financial assets	321.6	(52.9)	268.7	(154.8)	113.9
Derivative financial liabilities	(1,113.0)	52.9	(1,060.1)	154.8	(905.3)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid.

International Swaps and Derivatives Association (ISDA) netting reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March 2018 the maximum exposure to credit risk for the Group and Company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group	
	2018 £m	2017 £m
Cash and cash equivalents	**247.1**	354.8
Trade and other receivables	**478.9**	429.9
Investments	**40.0**	75.0
Derivative financial assets	**138.1**	268.7

	Company	
	2018 £m	2017 £m
Cash and cash equivalents	**245.4**	353.1
Trade and other receivables	**478.9**	429.9
Investments	**40.0**	75.0
Derivative financial assets	**138.1**	268.7

Notes to the Group financial statements continued

18 Financial instruments continued

(c) Capital risk management

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

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

(d) Liquidity risk

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

The Group maintains sufficient liquidity to cover 12 months' working capital requirements. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least six months in advance, to ensure covenant compliance.

The Group has the following undrawn committed borrowing facilities available at 31 March 2018, in respect of which all conditions precedent had been met at that date:

	Group	
	2018 £m	2017 £m
Within one year	**390.0**	375.0
Between one and five years	**600.0**	545.0
	990.0	920.0

The Group's borrowing facilities comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Abbey National Treasury Services Plc and Lloyds TSB Bank Plc; a £111.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services Plc and Commonwealth Bank of Australia; a syndicated £500.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and two bilateral facilities of £50.0 million each with Bank of China Ltd and Sumitomo Mitsui Banking Corporation for general corporate purposes.

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

	Group				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2018					
Trade and other payables	**(219.3)**	**-**	**-**	**-**	**(219.3)**
Borrowings	**(340.0)**	**(2,262.7)**	**(6,121.1)**	**(3,384.9)**	**(12,108.7)**
Derivative financial instruments	**35.9**	**(75.5)**	**(933.7)**	**(761.4)**	**(1,734.7)**
Finance leases	**(6.1)**	**(21.4)**	**-**	**-**	**(27.5)**
	(529.5)	**(2,359.6)**	**(7,054.8)**	**(4,146.3)**	**(14,090.2)**
At 31 March 2017					
Trade and other payables	(190.1)	-	-	-	(190.1)
Borrowings	(403.8)	(2,078.3)	(6,538.7)	(3,470.7)	(12,491.5)
Derivative financial instruments	(9.8)	(55.1)	(774.7)	(755.2)	(1,594.8)
Finance leases	(5.7)	(27.5)	(0.5)	-	(33.7)
	(609.4)	(2,160.9)	(7,313.9)	(4,225.9)	(14,310.1)

	Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2018					
Trade and other payables	**(265.6)**	**-**	**-**	**-**	**(265.6)**
Borrowings	**(340.0)**	**(2,262.7)**	**(6,121.1)**	**(3,384.9)**	**(12,108.7)**
Derivative financial instruments	**35.9**	**(75.5)**	**(933.7)**	**(761.4)**	**(1,734.7)**
Finance leases	**(6.1)**	**(21.4)**	**-**	**-**	**(27.5)**
	(575.8)	**(2,359.6)**	**(7,054.8)**	**(4,146.3)**	**(14,136.5)**
At 31 March 2017					
Trade and other payables	(236.0)	-	-	-	(236.0)
Borrowings	(403.8)	(2,078.3)	(6,538.7)	(3,470.7)	(12,491.5)
Derivative financial instruments	(9.8)	(55.1)	(774.7)	(755.2)	(1,594.8)
Finance leases	(5.7)	(27.5)	(0.5)	-	(33.7)
	(655.3)	(2,160.9)	(7,313.9)	(4,225.9)	(14,356.0)

Notes to the Group financial statements continued

19 Provisions

	Group and Company			
	Onerous leases £m	Coupon enhance-ment £m	Legal and other claims £m	Total £m
At 1 April 2017	1.0	8.0	5.3	**14.3**
Charge for the year	-	-	3.4	**3.4**
Unwinding of discount	-	0.3	-	**0.3**
Utilised in the year	(0.2)	(0.8)	(1.0)	**(2.0)**
At 31 March 2018	**0.8**	**7.5**	**7.7**	**16.0**

Maturity analysis of total provisions

	2018 £m	2017 £m
Current	**5.3**	4.1
Non-current	**10.7**	10.2
	16.0	14.3

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

As part of the Anglian Water securitisation that took place in 2002, the bonds that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 21 years.

Provisions for legal and other claims of £7.7 million (2017: £5.3 million) are in respect of legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

20 Deferred tax

	Group and Company					
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
At 1 April 2016	1,204.8	(145.2)	2.2	(145.1)	(2.7)	**914.0**
Credited directly to the income statement	(128.3)	(12.9)	1.7	-	0.1	**(139.4)**
Credited directly to other comprehensive income	-	(2.6)	(16.8)	-	-	**(19.4)**
Offset against corporation tax liability	-	-	-	84.3	-	**84.3**
At 31 March 2017	**1,076.5**	**(160.7)**	**(12.9)**	**(60.8)**	**(2.6)**	**839.5**
Credited directly to the income statement	(37.6)	20.2	1.3	-	(0.2)	**(16.3)**
Charged directly to other comprehensive income	-	3.1	13.3	-	-	**16.4**
Offset against corporation tax liability	-	-	-	23.8	-	**23.8**
At 31 March 2018	**1,038.9**	**(137.4)**	**1.7**	**(37.0)**	**(2.8)**	**863.4**

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

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £37.0 million. A profit and loss credit of £145.1 million would arise in writing off the inter-company liability to pay for this ACT asset, which is included within current tax liabilities of £264.3 million as disclosed in the Group and Company balance sheets.

21 Pension commitments

Pension arrangements for the minority (circa 25 per cent) of the Company's UK employees are of the funded defined benefit type through the Anglian Water Group Pension Scheme (AWGPS). The defined benefit arrangements are closed to new employees, who are eligible instead for entry to AWG's defined contribution schemes. As the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections were closed for future accruals.

The Company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS 19 as at 31 March 2018. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the Company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 18 and 28 years ago. These pension enhancements are payable until the death of the ex-employees (or their dependants) and payments are expected to be made over approximately 25 years.

Full valuations as at 31 March 2017 have been completed for the AWGPS (which includes Hartlepool) scheme, the results of which have been used as a basis for the IAS 19 results as at 31 March 2018.

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

The Group contributed 12.8 per cent (2017: 12.8 per cent) of pensionable pay plus £10.8 million (2017: £10.6 million) of deficit reduction payments to AWGPS during the year. In the year to 31 March 2019 the Company is expected to make deficit reduction payments amounting to £12.5 million.

The weighted average duration of the defined benefit obligation is 21 years for AWGPS, 20 years for Hartlepool and 12 years for the unfunded scheme.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £8.6 million (2017: £7.9 million).

(a) Principal actuarial assumptions

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

	2018 % pa	2017 % pa
Discount rate	**2.6**	2.6
Inflation rate		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increase to deferred benefits during deferment		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increases to inflation-related pensions in payment[1]		
RPI	**3.2**	3.2
CPI	**2.3**	2.3
General salary increases[2]	**-**	2.5 / 4.3[3]

	2018 Years	2017 Years
Longevity at age 65 for current pensioners		
Men	**22.5**	22.8
Women	**24.6**	24.9
Longevity at age 65 for future pensioners[4]		
Men	**23.9**	24.5
Women	**25.9**	26.8

[1] For RPI pension increases capped at 5 per cent per annum.
[2] As at 31 March 2018 the AWGPS Main and Hartlepool sections are closed to accrual of benefit and benefits are no longer linked to future salary, therefore a salary increase assumption is no longer required.
[3] As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees who are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5 per cent per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.3 per cent per annum) and RPI price inflation (3.3 per cent per annum) are both above 2.5 per cent per annum at 31 March 2018, the 2.5 per cent cap on future pensionable salary increases is assumed to apply. Benefits earned to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5 per cent per annum over the period from 1 April 2012 to retirement or earlier leaving.
[4] The life expectancy shown for future pensioners is for those reaching 65 in 2038.

Notes to the Group financial statements continued

21 Pension commitments continued

(b) Sensitivity analysis

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

	Change in assumption	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
At 31 March 2018					
Discount rate	+/- 0.5% pa	-152/+177	-2/+2	-3/+3	**-157/+182**
Rate of RPI inflation	+/- 0.5% pa	+120/-107	+1/-1	+3/-3	**+124/-111**
Rate of salary increases	+/- 0.5% pa	Nil	Nil	Nil	**Nil**
Life expectancy	+/- 1 year	+46/-45	+1/-1	+2/-2	**+49/-48**

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

(c) Risk and risk management

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

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

Asset volatility

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

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

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

Change in bond yields

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

Price inflation

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

Life expectancy

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

(d) Amounts recognised in comprehensive income

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2018				
Amount charged to staff costs within operating profit				
Current service cost	**(8.8)**	**(0.3)**	**-**	**(9.1)**
Administration expenses	**-**	**(0.1)**	**-**	**(0.1)**
Loss on curtailment/settlement	**(2.2)**	**1.8**	**-**	**(0.4)**
Total operating charge (see note 8)	**(11.0)**	**1.4**	**-**	**(9.6)**
Net interest expense (see note 6)	**(0.7)**	**0.1**	**(1.2)**	**(1.8)**
Amounts charged to the income statement	**(11.7)**	**1.5**	**(1.2)**	**(11.4)**
Amounts credited to comprehensive income				
Return on plan assets (excluding amounts included in net interest)	**51.1**	**(0.3)**	**-**	**50.8**
Actuarial gains arising from changes in financial assumptions	**20.3**	**0.3**	**0.7**	**21.3**
Actuarial gains arising from experience adjustments	**5.5**	**0.1**	**(0.3)**	**5.3**
Net credit to comprehensive income	**76.9**	**0.1**	**0.4**	**77.4**
2017				
Amount charged to staff costs within operating profit				
Current service cost	(6.4)	(0.2)	-	(6.6)
Administration expenses	(0.1)	(0.1)	-	(0.2)
Total operating charge (see note 8)	(6.5)	(0.3)	-	(6.8)
Net interest income (see note 6)	2.0	0.1	(1.5)	0.6
Amounts charged to the income statement	(4.5)	(0.2)	(1.5)	(6.2)
Amounts charged to comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	207.0	6.2	-	213.2
Actuarial gains arising from changes in demographic assumptions	15.4	0.2	0.7	16.3
Actuarial losses arising from changes in financial assumptions	(331.7)	(4.8)	(6.5)	(343.0)
Actuarial gains arising from experience adjustments	12.1	0.1	0.4	12.6
Net charge to comprehensive income	(97.2)	1.7	(5.4)	(100.9)

(e) Amounts recognised in the balance sheet

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2018				
Equities	**133.1**	**3.5**	**-**	**136.6**
Corporate bonds	**835.1**	**-**	**-**	**835.1**
Government bonds	**437.5**	**23.3**	**-**	**460.8**
Property	**103.3**	**-**	**-**	**103.3**
Alternatives	**90.4**	**-**	**-**	**90.4**
Other	**(48.3)**	**0.5**	**-**	**(47.8)**
Total assets	**1,551.1**	**27.3**	**-**	**1,578.4**
Present value of scheme liabilities	**(1,501.1)**	**(21.0)**	**(47.2)**	**(1,569.3)**
Net pension surplus	**50.0**	**6.3**	**(47.2)**	**9.1**
Comprising:				
Pension schemes with a net surplus, included in non-current assets	50.0	6.3	-	**56.3**
Pension schemes with a net obligation, included in non-current liabilities	-	-	(47.2)	**(47.2)**
	50.0	**6.3**	**(47.2)**	**9.1**

Notes to the Group financial statements continued

21 Pension commitments continued

(e) Amounts recognised in the balance sheet *continued*

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2017				
Equities	258.2	4.7	-	262.9
Corporate bonds	631.2	-	-	631.2
Government bonds	292.1	23.6	-	315.7
Property	105.2	-	-	105.2
Alternatives	(42.5)	-	-	(42.5)
Other	249.6	1.9	-	251.5
Total assets	1,493.8	30.2	-	1,524.0
Present value of scheme liabilities	(1,524.2)	(26.2)	(49.2)	(1,599.6)
Net pension deficit	(30.4)	4.0	(49.2)	(75.6)
Comprising:				
Pension schemes with a net surplus, included in non-current assets	-	4.0	-	4.0
Pension schemes with a net obligation, included in non-current liabilities	(30.4)	-	(49.2)	(79.6)
	(30.4)	4.0	(49.2)	(75.6)

Pension schemes in a net surplus position at the balance sheet date are shown as retirement benefit surpluses within non-current assets on the balance sheet.

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

(f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2017				
At 1 April 2016	1,263.7	25.1	-	1,288.8
Interest income on scheme assets	43.9	0.8	-	44.7
Administration costs	(0.1)	(0.1)	-	(0.2)
Employers' contributions	15.8	0.7	2.8	19.3
Members' contributions	4.0	0.1	-	4.1
Benefits paid	(40.6)	(2.5)	(2.8)	(45.9)
Return on plan assets (excluding interest income)	207.1	6.1	-	213.2
At 31 March 2017	1,493.8	30.2	-	1,524.0
2018				
At 1 April 2017	**1,493.8**	**30.2**	**-**	**1,524.0**
Interest income on scheme assets	**38.3**	**0.8**	**-**	**39.1**
Administration costs	**-**	**(0.1)**	**-**	**(0.1)**
Employers' contributions	**15.6**	**0.7**	**2.8**	**19.1**
Members' contributions	**3.7**	**-**	**-**	**3.7**
Benefits paid	**(51.4)**	**(4.0)**	**(2.8)**	**(58.2)**
Return on plan assets (excluding interest income)	**51.1**	**(0.3)**	**-**	**50.8**
At 31 March 2018	**1,551.1**	**27.3**	**-**	**1,578.4**

(g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2017				
At 1 April 2016	(1,208.4)	(23.3)	(45.0)	(1,276.7)
Current service cost	(6.4)	(0.2)	-	(6.6)
Interest cost on scheme liabilities	(41.8)	(0.8)	(1.5)	(44.1)
Members' contributions	(4.0)	(0.1)	-	(4.1)
Benefits paid	40.6	2.5	2.8	45.9
Actuarial loss	(304.2)	(4.3)	(5.5)	(314.0)
At 31 March 2017	(1,524.2)	(26.2)	(49.2)	(1,599.6)
2018				
At 1 April 2017	**(1,524.2)**	**(26.2)**	**(49.2)**	**(1,599.6)**
Current service cost	**(8.8)**	**(0.3)**	**-**	**(9.1)**
Gain on curtailment	**(2.4)**	**1.8**	**-**	**(0.6)**
Interest cost on scheme liabilities	**(39.1)**	**(0.7)**	**(1.2)**	**(41.0)**
Members' contributions	**(3.7)**	**-**	**-**	**(3.7)**
Benefits paid	**51.4**	**4.0**	**2.8**	**58.2**
Actuarial gain	**25.7**	**0.4**	**0.4**	**26.5**
At 31 March 2018	**(1,501.1)**	**(21.0)**	**(47.2)**	**(1,569.3)**

22 Hedging reserves

	2018 £m	2017 £m
At 1 April	**(120.5)**	(101.0)
Gains on cash flow energy hedges	**8.3**	13.7
Amounts transferred to the income statement	**(1.8)**	(2.3)
(Losses)/gains on cash flow hedges	**(46.3)**	30.9
Transfer to income statement arising from discontinuation of cash flow hedges	**3.7**	1.0
Exchange movement hedging instruments related to debt in cash flow hedges	**54.4**	(65.4)
Deferred tax movement on cash flow hedges	**(3.1)**	2.6
At 31 March	**(105.3)**	(120.5)

23 Share capital

	Group and Company	
	2018 £m	2017 £m
Allotted, issued and fully paid		
10 million (2017: 10 million) ordinary shares of £1 each	**10.0**	10.0
	10.0	10.0

Notes to the Group financial statements continued

24 Capital commitments

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

	Group and Company	
	2018 £m	2017 £m
Property, plant and equipment	**76.1**	89.2
Intangible assets	**32.7**	20.1
	108.8	109.3

25 Operating lease commitments

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

At 31 March 2018 the Group and Company had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	2018 £m	2017 £m
Within one year	**3.8**	3.6
Between one and five years	**14.0**	14.4
After five years	**15.7**	18.4
	33.5	36.4

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

	2018 £m	2017 £m
Within one year	**0.4**	0.4
Between one and five years	**1.6**	1.7
After five years	**-**	0.3
	2.0	2.4

26 Contingencies

The Company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2018 amounted to £7,321.8 million (2017: £7,220.3 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the Company. In 2017 this included the £1,602.6 million loan made by the Company to Anglian Water Services Holdings Limited, which was repaid on 29 March 2018. Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2018.

We received indications of claims from two groups of property search companies in 2016 and a further two in 2018. The four company groups, pursuant to the Environmental Information Regulations, assert that certain information that we provided to them should have been provided free of charge. This is an industry-wide issue and at this stage the Directors consider the amount to be uncertain, but not to be material to the financial standing of the Company.

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

27 Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

At the balance sheet date, the Company's immediate parent undertaking was Anglian Water Services Overseas Holdings Limited, a company registered in the Cayman Islands. Following a reorganisation on 30 May 2018, the Company's immediate parent undertaking is now Anglian Water Services UK Parent Co Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey but domiciled in the UK, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors, and Camulodunum Investments Limited (CIL). 3i sold their holding in Anglian Water Group Limited to CIL on 22 February 2018.

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

28 Business disposal and disposal group held for sale

On 1 April 2017 Anglian Water Services Limited completed the sale of the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the Group's ultimate parent undertaking.

The sale was completed for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million which is recognised in the 2017/18 financial statements.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the following assets and liabilities of Anglian Water's non-household retail business, valued at their carrying amount, were classified as a disposal group held for sale as at 31 March 2017:

	2017 £m
Assets held for sale	
Intangible assets	3.1
Property, plant and equipment	0.5
Trade and other receivables	82.0
	85.6
Liabilities held for sale	
Trade and other payables due within one year	(11.2)
	(11.2)
	74.4

There was no cumulative income or expense recognised directly in other comprehensive income relating to the 2016/17 disposal group.

29 Related party transactions

(a) Transactions with shareholders

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

During the year to 31 March 2018, the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited, agreed to the extension of its participation in the £500.0 million revolving credit facility with an allocation of £45.0 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25.0 million. The fees earned on these facilities totalled £8,750.

During the year to 31 March 2017, the Commonwealth Bank of Australia agreed to the extension of its participation in the £500.0 million revolving credit facility with an allocation of £45.0 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25.0 million. The fees earned on these facilities totalled £76,250.

During the year to 31 March 2018 there were no other transactions, other than £86.1 million of dividends (2017: none other than £128.0 million of dividends) with the shareholders.

Notes to the Group financial statements continued

29 Related party transactions continued

(b) Remuneration of key management personnel

Key management personnel comprise the Directors and the members of the Management Board during the year.

The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 116 to 135.

	2018 £m	2017 £m
Short-term employee benefits	**4.8**	4.7
Post-employment benefits	**0.5**	0.4
Other long-term benefits	**1.7**	1.6
Termination benefits	**-**	-
	7.0	6.7

At the balance sheet date key management also held various bonds issued by the Group totalling £2.2 million (2017: £0.1 million).

(c) Parent company

The Company's related party transactions are summarised below:

	2018 £m	2017 £m
Sale of goods/services to:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**0.2**	0.5
Purchase of goods/services from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**0.6**	0.8
Management fees received from:		
Parent company	**-**	-
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Management fees paid to:		
Parent company	**-**	-
Subsidiaries	**0.3**	0.3
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Interest received from:		
Parent company	**191.8**	192.3
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Interest paid to:		
Parent company	**-**	-
Subsidiaries	**350.6**	286.5
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Dividends received from:		
Subsidiaries	**-**	-
Dividends paid to:		
Parent company	**1,942.7**	320.3

	2018 £m	2017 £m
Trade and other receivables due from:		
Parent company	**-**	0.5
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**0.5**	1.2
Trade and other payables due to:		
Parent company	**-**	-
Subsidiaries	**46.3**	46.0
Fellow subsidiaries of Anglian Water Group Limited	**264.5**	267.6
Loans and other borrowings due from:		
Parent company	**-**	1,602.6
Subsidiaries	**-**	-
Fellow subsidiaries of Anglian Water Group Limited	**-**	-
Loans and other borrowings due to:		
Parent company	**-**	-
Subsidiaries	**6,543.4**	6,442.5
Fellow subsidiaries of Anglian Water Group Limited	**-**	-

30 Events after the balance sheet date

The final dividend for 2017/18 of £68.0 million was approved by the Board on 5 June 2018 for payment on a date to be agreed.

Other than the above, there have been no events between the balance sheet date and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

Independent auditors' report to the members of Anglian Water Services Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Anglian Water Services Limited (the 'parent company'), and its subsidiaries (the 'group') which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company cash flow statement;
- the group and parent company statements of changes in equity; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company. While the parent company is not a public interest entity subject to European Regulation 537/2014, the directors have decided that the parent company should follow the same requirements as if that Regulation applied to the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Bad debt provisioning • Revenue recognition – estimating unbilled revenue • Revenue recognition – wholesale charges to water retailers • Classification of costs between operating and capital expenditure • Derivative accounting Within this report, any new key audit matters are identified with ⊗ and any key audit matters which are the same as the prior year identified with ⊗.
Materiality	The materiality that we used for the group financial statements was £10.1 million (2017: £13.2 million), which was determined on the basis o,f 5% of profit before tax, excluding fair value movements on derivatives.
Scoping	The group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company, Anglian Water Services Financing plc (which issues the group's debt). Both of these companies were subject to a full statutory audit by the group audit engagement team.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 74 to 88 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 139 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 136 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A new key audit matter has been identified in relation to the recognition of wholesale revenue charges levied to water retailers. These charges are a new revenue stream for the group for the year ended 31 March 2018 following the introduction of Open Water on 1 April 2017.

Bad debt provisioning	
Key audit matter description	A proportion of Anglian Water Services Limited's customers do not or cannot pay their bills which results in the need for provision to be made for non-payment of the customer balance. We have identified a key audit matter in relation to the bad debt provision as significant judgement is involved in calculating the provision, particularly regarding the estimation of future cash collections. We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics which management utilise to monitor and report business performance. Provision is made against Anglian Water Services Limited's trade receivables based on historical recovery of debt balances in particular ageing categories. The provision was £183.1 million as at 31 March 2018 (2017: £185.3 million) as set out in note 15. The Audit Committee also considered this as a significant issue and it is discussed in the Audit Committee Report on page 110. It is also included as a key source of estimation uncertainty in note 2 to the financial statements and the relevant accounting policy is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We obtained and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. We reviewed the actual history of slow paying customers in the period to understand the collection of previously aged debtors. We used data analytics to recompute the ageing analysis. We evaluated the design and implementation of key management review controls and those relating to the production of the data used in the bad debt model. We have also agreed a sample of this data back to its source, being the billing system.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivable are appropriate and no additional provision was identified from the audit work performed.

Revenue recognition – estimating unbilled household revenue	
Key audit matter description	For water and water recycling customers with meters, the revenue recognised depends upon the volume used, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. The unbilled accrual at 31 March 2018 was £287 million (2017: £260.5 million) and is disclosed in note 15. The risk is focused on the usage estimate, which is based on historical data and assumptions around consumption patterns upon which management then recognises unbilled revenue. Due to the level of management judgement, the estimation of unbilled household revenue has been identified as a key audit matter. We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics which management utilise to monitor and report business performance. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 110. Management has included this as a key source of estimation uncertainty in note 2 to the financial statement and the relevant accounting policy adopted is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We challenged the validity of management's estimate of current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques. We also evaluated the design and implementation of key controls embedded within the unbilled household revenue cycle. In addition, we used data analytics to recompute the total level of unbilled revenue for the current year. We also agreed a sample of this data back to its source, being the billing systems.
Key observations	We are satisfied that management's assumptions in relation to the recognition of unbilled revenue are appropriate.

Independent auditors' report continued

Revenue recognition – wholesale charges to water retailers

Key audit matter description	As of 1 April 2017 Anglian Water Services Limited has, for the first time, provided water and wastewater wholesale services to water retailers, thus resulting in the recognition of a new revenue stream. This revenue stream has replaced the charges previously levied directly to non-household customers and is as a result of changes to market rules of operation, known as "Open Water". These changes have significantly changed the nature of, and the method for calculating, certain revenue balances within the financial statements. We have identified a key audit matter relating to the appropriateness of the adjustments recorded by management to the independent data received from the market operator when calculating revenue. These adjustments are inherently judgemental and based on management's estimates regarding errors and inconsistencies in the market operators' consumption data. We have identified a risk of fraud in relation to this audit matter due to its influence on key metrics which management utilise to monitor and report business performance. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 110. The relevant accounting policy adopted is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of key management review controls over the revenue adjustments and those relating to the key data inputs to the calculation. This included agreeing a sample of this data back to its source, being the market operator's system. We have reviewed and challenged the validity of management's adjustments by assessing the trends within the data provided by the market operator's system and through comparison of these trends to the revenue calculated by management. Any outliers were further investigated to ensure the adjusment was appropriate and accurate. In addition, we assessed the historical accuracy of adjustments previously calculated by management relative to final settlement data provided by the market operator.
Key observations	We are satisfied that management's adjustments in relation to the recognition of revenue in relation to wholesale charges to water retailers are appropriate.

Classification of costs between operating and capital expenditure

Key audit matter description	The group has a substantial capital programme (fixed asset additions in the year £432.9 million, see note 12, including £64 million of capitalised overheads) and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred. Capital projects can contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgmental, as is the quantification of overheads to be capitalised. We have identified a risk of fraud in relation to this audpasit matter due to its influence on key metrics which management utilise to monitor and report business performance. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 110. Management has included this as a significant judgement in note 2 to the financial statements and the relevant accounting policy adopted is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We assessed the group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the group's capital programme during the year. This included consideration of the allocation of costs between capital and operating expenditure. We specifically challenged the assumptions and judgements made in allocating overheads to capital projects, through understanding the nature of activities performed. We also evaluated the design and implementation of key management controls embedded within the capital expeniture cycle, specifically those which relate to determining the classification of costs as operating or capital expenditure, and the quantification of overheads to be capitalised. In addition, for a sample of capital projects, we assessed the application of the capitalisation policy to the costs incurred by agreement to third party invoices, as well as assessing the appropriateness of capitalised overheads based on our understanding of the nature of the cost capitalised.
Key observations	Based on our audit of a sample of capital projects, the testing of controls, and our review of the project budgets, we consider that the classification of costs between operating and capital expenditure is appropriate.

Derivative accounting	
Key audit matter description	The group has a net derivative liability of £740.9 million (2017: £791.4 million), disclosed in note 18, including interest rate swaps, index linked swaps, cross currency swaps and contracts to fix energy prices. A number of these have been designated in hedging relationships, while the remainder are considered economic but not accounting hedges, with changes in fair values recorded in the income statement. This is a complex area of accounting and requires management judgement in relation to the derivative valuation, and in particular the credit risk adjustments, and therefore both the valuation of the derivatives and the appropriateness of hedge accounting have been identified as key audit matters. For valuation, we have focussed on the risk of material mistatement arising on the valuation of the index-linked and cross currency swaps, as well as swap locks, due to their complexity. For hedge accounting, we focused on the risk of material misstatement from hedge accounting eligibility and the calculation of hedge effectiveness. Accounting under IAS39 involves recording derivative contracts on the balance sheet and requires judgements to be made as to whether hedge effectiveness can be achieved which allows fair value movements on the hedging instruments to be offset by equal and opposite movements to the hedged item or taken to reserves, rather than being charged in the income statement. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 110. The relevant accounting policy adopted is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We have performed a sample of independent valuations across all the derivative contracts, including an assessment of the credit risk adjustment. Additionally, we have considered the accounting treatment arising from the derivative restructures. Where hedge accounting is applied, we have performed independent hedge effectiveness testing on a sample of the hedge relationships and agreed the accounting treatment as appropriate. We also evaluated the design and implementation of key management controls embedded within the treasury cycle.
Key observations	Based on our sample of valuations across the derivative contracts, no material misstatements were identified, and we are satisfied that the hedge accounting treatment is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£10.1 million (2017: £13.1 million)	£10.0 million (2017: £13.0 million)
Basis for determining materiality	5% of profit before tax, excluding fair value movements on derivatives	5% of profit before tax, excluding fair value movements on derivatives
Rationale for the benchmark applied	A profit measure has been selected as our basis for materiality as it is a key driver of business value, is a critical component of the financial statements and is a focus for users of the financial statements. The impact of fair value movements on derivatives have been excluded from profit before tax, to focus on the group's underlying trading performance, consistent with the group's internal and external reporting. The substantial majority of the group's operations are carried out by the parent company.	

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5 million (2017: £0.7 million) for the group and parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full scope audits and together account for 100% (2017:100%) of the group's turnover, net assets, profit before tax, gains/losses on financial instruments and exceptional items.

All work was carried out directly by the group audit team.

Independent auditors' report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we report to you as uncorrected material misstatements of the other information include where we conclude that: • *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.	**We have nothing to report in respect of these matters.**

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would apply were the company a quoted company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	**We have nothing to report in respect of this matter.**

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the company on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 March 2017 and 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

James Leigh (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom
5 June 2018

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LED670/07/18

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