Anglian Water Services Limited
Preliminary results

for the year ended 31 March 2019

Final, 29 May 2019

Anglian Water Services Limited

Financial results for the year ended 31 March 2019

For immediate release, 29 May 2019

Delivering another year of very strong performance for customers, communities, and the environment

Financial highlights

- Revenue (excluding grants and contributions) of £1,280.3 million, an increase of £31.4 million (2.5 per cent) on 2018 - consistent with the regulatory pricing mechanism, the impact of the hot, dry summer on demand and customer growth.
- Operating costs up by £38.4 million (6.5 per cent), reflecting the impact of the exceptional 2018 summer period, inflationary pressure on costs and providing more effective solutions through operational maintenance, rather than capital investment, partially offset by savings from efficiency initiatives.
- Underlying profit before tax up by 14.4 per cent to £60.5 million, reflecting increased revenues, lower underlying finance charges partially offset by increased operating costs. (Note that on a statutory basis, the loss before tax was £37.9 million).
- Cash generated from operations of £700.7 million, up 1.4 per cent on last year.
- Gross capital investment in the year of £440.0 million (2018: £467.2 million[1]) – includes £55.7 million of reinvestment spend out of the £165 million of additional investment of delivered efficiencies as previously announced.
- A successful second round of green bonds raised amounting to £580.0 million.
- Proposed final dividend of £67.8 million (2018: £68.0 million), substantially lower than funds available for distribution, and a £22.0 million equity injection received in the year from the Group, all consistent with the board's commitment to reduce gearing through to 2025.

[1] The gross capital investment comparative has been restated to reflect the impact of IFRS 15 – previously contributions received for diversions of £6.3 million in 2017/18 were offset against capital expenditure and now they are classified as revenue.

Business performance highlights

Unrivalled support for the communities we serve

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

Planning for the future

- £6.5 billion investment plan for 2020-25 submitted to Ofwat, supported by more than 80 per cent of customers based on an extensive acceptability and affordability survey, and online community research.
- Proposes a 30 per cent increase in the investment programme on the current five year period to 2020. The ambition of the plan matches the scale of the challenge faced in the region, and by using the latest innovative technology and working more efficiently, customer bills will stay low.
- Includes an investment programme to dramatically reduce leakage from our already industry leading position, protect our region from the risks of drought and flooding, enhance the environment, and meet growth through sustainable improvements to our network.
- Plan shaped by half a million customer interactions, drawing on 38 channels of communication and contact: ten times more than in the current Asset Management Plan period (AMP6).
- Fifth supply chain alliance being set up to deliver a Water Resources Management Plan which totals £630 million, nearly eight times larger than the last period, delivering resilience to drought and flooding.

- Initial Assessment received from Ofwat; customer engagement given 'A' grade, underlining that the plan delivers on customers' priorities.
- Ofwat is now reviewing our plan, along with our feedback on their initial assessment of it, in which we reiterated our belief that it is the right plan for our customers and the environment.
- Actively seeking to manage downside risks associated with exiting the EU. Working across the industry and with Defra to manage these risks by securing alternative sources of chemicals and increasing the resilience of supplies where possible.
- Monitoring Labour Party policy to return water companies to public ownership.

Innovation continues to deliver

- The innovation test-bed 'Shop Window' in Newmarket has seen 114 partners trialing and delivering 110 projects applying cutting-edge technology right across the business. In Newmarket, this approach has already delivered an 8 per cent reduction in consumption in the town.
- Best Use of 'Technology for Carbon Reduction' awarded by New Civil Engineer for the Great Dunmow Water Recycling centre project.
- Applying naval and NASA originating-technology to enhance operational performance

Pushing leakage performance even further

- Prioritising the reduction of leakage during a challenging period, including first use in the UK of world-leading technology.
- Regulatory leakage target beaten for the 8th year running.
- Customer contacts regarding drinking water quality at best ever levels.

Recognition for excellent all-round performance

- Named Utility Company of the Year at the Utility Week Awards in December 2018.
- Named Water Company of the Year at this year's Water Industry Awards
- Two awards received at this year's prestigious International Water Association Awards, held in Tokyo, in recognition of our ambitious innovation and leakage strategies.
- Invited to join Leading Utilities of the World, the gold standard of utility performance.
- Awarded Glassdoor Employee's Choice Best Place to Work in the UK.
- Retained ROSPA Gold Award for Safety for 15th consecutive year.
- Cumulative Outcome Delivery Incentive reward of £40 million over first four years of AMP6.

Protecting and enhancing our environment

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

Earlier this year, the Board of AWS announced that Scott Longhurst, Managing Director of Finance and Non-Regulated Business, will step down as an Executive Director of the Company during the current financial year, at a date to be determined. He will be replaced by Steve Buck, who will join the Group as Chief Financial Officer designate on 31 May 2019. Steve will be formally appointed to the Board following a thorough induction and handover.

Commenting on the Company's financial results and operational performance for the year ended 31 March 2019, Peter Simpson, Anglian Water Group's Chief Executive, said:

"This has been a very significant year for water companies, with the sector under the spotlight like never before. We are operating in an environment where a growing set of complex social, political and environmental challenges are increasingly top of mind. It is also the year when water companies proposed their business plans for 2020-2025 to the industry's regulator, Ofwat, while at the same time coming together to examine the purpose of the sector, outlined in the industry's recently published Public Interest Commitments.

"There have also been numerous operational challenges during the year, not least the severe weather posed by the 'Beast from the East', followed by the record-breaking and prolonged hot, dry summer.

"It is against that backdrop that I am delighted to report another year of exceptional performance, delivering for customers, for the communities they live in, and for the environment we all rely on.

"This year's achievements build on more than a decade of industry leading performance, most notably in leakage and customer service. Our approach - to innovate, learn and share - has again seen us pushing the frontier for the whole industry, while enabling the continued growth and prosperity of the region.

"By ensuring customers are at the heart of our business, a responsible and sustainable approach can deliver for our customers, employees, stakeholders and crucially, the environment. This is nowhere better illustrated than in our plan for 2020-25, submitted to the regulator earlier this year, which sets out how we will tackle these challenges to ensure the region is resilient to the risks of drought and flood, while continuing to make environmental improvements and support sustainable growth in what is one the UK's driest yet fastest growing regions. Our proposals build on customer engagement that indicate a clear desire for us to take action to increase resilience to these challenges now, rather than to wait.

"Crucially, our plan was written following the most extensive engagement we have ever had with customers – not less than half a million customer interactions, ten times more than for our previous business plan. This engagement shaped our plan like never before, eschewing traditional consultations for ongoing dialogue, ensuring rapid response to changing customer expectations.

"It proposes a record £6.5 billion investment programme to drive down leakage a further 22 per cent, going from industry-leading to world-leading levels; a Water Resources Management Plan totalling £630 million, nearly eight times larger than the last period which will reduce the risk of water restrictions for all customers; £783 million to support the environment, more than double the last period; £650 million to enable sustainable growth; and plans to support more than 475,000 customers each year who need help with affordability or vulnerability issues.

"Given we are proposing to increase our total investment by one third, it is absolutely right that Ofwat provides strong scrutiny and challenge. Both we and our customers expect nothing less, and we were delighted to see Ofwat recognised Anglian Water as the best in the industry on engaging with customers. This gives us further confidence that we are accurately reflecting the needs and priorities of the customers and communities we serve.

"The business plan is built on robust foundations, too. Our long-term proposals for 2020-2045, set out in our Strategic Direction Statement, and on the suite of changes we announced this past year to strengthen transparency and remove complexity within our Corporate Structure, show a proactive approach to both current and future challenges.

"Our plan is also, we believe, the appropriate response to the clear direction the Government has set out in its various policy statements, to the National Infrastructure Commission's conclusions in its 2018 'Preparing for a Drier Future' report, and to the recent warnings from Sir James Bevan, Chief Executive of the Environment Agency, about the urgency of addressing the growing problem of water scarcity.

"Taking all these factors into account, we feel it is essential that we move ahead with this plan. Much of the company's focus this year has been about building on the strong foundations underpinning the plan to create the required flight path to a sustainable and resilient future. The combination of our track record delivering leading performance, and our people, mean we are well placed to deliver the sustainable future our region needs."

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Anglian Water Services Limited

Year end management report

for the year ended 31 March 2019

Summary

Results for the year ended 31 March 2019

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 (Restated)[1] £m
Revenue	**1,354.7**	1,312.0
Other operating income	**13.6**	11.1
Operating costs	**(630.5)**	(592.1)
Depreciation	**(348.8)**	(335.6)
Operating profit	**389.0**	395.4
Finance income[2]	**2.9**	1.6
Finance costs[3]	**(331.4)**	(344.1)
Underlying profit before tax	**60.5**	52.9
Finance costs - fair value (losses)/gains on derivatives	**(98.4)**	117.6
Finance income - inter-company interest receivable	**-**	191.8
Profit on disposal of the non-household retail business	**-**	4.6
Statutory loss/profit before tax	**(37.9)**	366.9

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

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

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

Revenue

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

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

Other operating income

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

Operating costs

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

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

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

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

Depreciation and operating profit

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

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

Financing costs and profit before tax

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

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

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

Taxation

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

Total tax paid or collected in the year to 31 March 2019, other than corporation tax, amounted to £256 million (2018: £227 million), of which £82 million was collected on behalf of the authorities for value added tax (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 £55.9 million (2018: £44.0 million). The increase was mainly due to a charge that arises on adoption of IFRS 15 and an increase in profits before taking account of fair value adjustments on derivative financial instruments, which have no current tax effect. This is offset by the claiming of capital allowances.

Deferred tax

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

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

Successful fourth year of AMP6 investment programme

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

We have successfully delivered a number of our obligations for the Environment Agency through some innovative and lower build approaches which has enabled us to both reduce carbon and deliver best whole-life cost solutions. These schemes at places such as Ingoldisthorpe, Great Dunmow and Stanbridgeford will form the basis not only of our Green Bond funded investment plan, but will also serve as a blueprint for the approach we want to take in the next 5 year regulatory period.

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[1] Stated on an IFRS basis but excluding capitalised interest and adopted assets acquired at nil consideration.
[2] The comparative is updated to reflect the impact of IFRS 15 – previously £6.3 million of diversion income was offset against capital expenditure, but is now classified as revenue.

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

Financial needs and resources

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

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

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

Dividends and equity injections

During the year the company paid dividends of £68.0 million (2018: £86.1 million). The dividend was substantially lower than the funds available for distribution reflecting the board's stated intention of reducing gearing by paying lower dividends through to 2025.

The directors have proposed a final dividend to be paid on 30 May 2019 of £67.8 million.

In October 2018 the company received an equity injection of £22.0 million from its group investors as part of the planned reduction in gearing.

Financial resilience

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. As previously reported, and notwithstanding our strong track record of financial resilience we are reducing our gearing by paying less dividends to our shareholders through to 2025, which will further increase our resilience against downside risks and cost shocks.

In reviewing its financial resilience or long-term viability of the business, Anglian Water considers the stringent covenant tests required under its financing arrangements to provide assurance to our lenders that our business is in compliance with the covenants and viable for the next ten years. The covenant tests also help ensure we maintain strong investment grade credit ratings to secure the availability of debt to efficiently finance the Company's investment programme. These covenant tests include ensuring there is sufficient working capital and financial resources.

In previous years we had looked forward five years, however, Ofwat has challenged the industry to look beyond the end of the next AMP period when considering long-term viability. The Directors have assessed Anglian Water's financial viability over the next ten years from April 2019 to March 2029, nine years beyond the end of the current AMP period in March 2020; it is the company investors that bear the risks associated with the Company's choices in relation to capital and financial structures. A ten year look forward period is considered appropriate as there is reasonable clarity about the level of revenues over this period, and it is within the planning horizon that our stakeholders expect the business to forecast performance and model the impact of costs. In looking out ten years (i.e. for two future price controls) we rely on the assumption that Ofwat continues to regulate with regard to the principles of regulatory best practice, and in accordance with its primary obligations under the Water Industry Act to secure that water companies can finance the proper carrying out of their statutory duties.

At each Regulatory Price Review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom, and also models financial performance for the five years of the subsequent AMP period. This includes extensive scenario testing at both Anglian Water and at Group holding company level from material risks aligned to our risk identification and management process and resultant top tier risk register. Our scenarios cover principal risks facing the business in the short and longer term and the combined impact of multiple risks.

Further details of the financial modelling assumptions, stress testing and how we link this to the principal business risks will be provided in the business viability statement in the Annual Integrated Report and Annual Performance Report, both of which will be published in July.

Operational Performance Summary

Planning for the future: PR19
In September 2018, we submitted our most ambitious Business Plan yet. It proposes a record £6.5 billion investment programme which is nearly 30 per cent larger than for the last period. Our plan addresses what our customers told us matters to them most, as well as addressing the unique challenges we face as a water company operating in one of the UK's fastest growing and driest regions.

The £6.5 billion programme of investment includes:

- £240 million to drive down consumption, including a further 22 per cent reduction in leakage
- £630 million to make the region resilient to the risks of drought and flooding, nearly eight times larger than the last period
- £783 million to support the environment, more than double the last period
- £40 million to protect drinking water quality through catchment management
- £650 million to enable sustainable growth through improvements to the water and water recycling networks, backed up by over £3.7 billion of base operating expenditure and maintenance costs

Alongside this, we have mapped out plans to support more than 475,000 customers each year who have affordability and vulnerability issues - a huge jump in support for customers who may encounter affordability issues in AMP7.

This 30 per cent increase in investment is being delivered alongside what is now a marginal price reduction over the period of 0.1 per cent, with average real bills at the end of the period £5 per year lower than at the start (£426 in 2020/21, to £421 in 2025/26).

Ofwat is now reviewing our plan, along with our feedback on the regulator's initial assessment of it, in which we reiterated our belief that it is the right plan for our customers and the environment. We will receive our final determination in December 2019.

Following the proposed metaldehyde ban (announced subsequent to the plan's initial submission), we have removed £65 million of associated investment from the plan. This, alongside other minor changes to the proposals and the inclusion of even more recent figures, has resulted in proposed bills now decreasing slightly over the five year period to 2025 as mentioned above.

More than half a million customer interactions have shaped the plan – ten times greater than for Anglian Water's last plan in 2014 – with more than 80 per cent supporting it. We are confident it is the right plan for our customers, and the right plan for the region.

Delivering our AMP6 Business Plan
Alongside planning for the future, we have not lost sight of the importance of delivering our business plan for AMP6, 2015-2020. This plan was also written following extensive consultation with customers, and was based around ten outcomes that address the issues that matter most to our customers, and that deliver for them, the region and the environment.

Here, we report on progress against these ten outcomes under the overarching banners of Smart Business, Smart Communities and Smart Environment. Further detail will be published in our Annual Integrated Report.

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

<u>Smart Business</u>

Resilient Business
We must be constantly ready to deal with severe weather events, including flooding, the risk of drought from too little rainfall or the rapid changes in conditions from a freeze-thaw event. We have been challenged by all of these in the last twelve months. Our meticulous planning and rapid operational response means customers saw no impact from the prolonged dry weather of summer 2018, as was the case during the Beast from the East, earlier in the year. We now have more than 1,000 recruits within the 'Anglian Water Force', a team of volunteers from our business and our

alliance partners who are ready to respond quickly in the event of an incident. This approach was shortlisted as a finalist at the 2018 Utility Week Awards.

We continue to achieve certification to ISO 22301, an international standard in business continuity management, which recognises that we have the plans and systems in place to keep our business running. This is supported by active engagement with our 13 Local Resilience Forums (LRFs) and the Multi Agency Support Group for the East of England in planning and risk mitigation.

Our ultimate aim is to increase our resilience as a business so that, no matter what, we keep taps running. The way in which we deal with leakage is at the heart of this. We continue to lead the industry in leakage reduction, with around half the national average based on the amount of water lost per kilometre of main. As part of our drive to improve our resilience to the impacts of drought and climate change we set ourselves the ambitious target of reducing leakage by 10.4 per cent, or 20Ml/d, to 172Ml/d between 2015 and 2020. Our results for 2018/19 are slightly up on previous years following the severe weather we have experienced, but we are nonetheless well within our regulatory target.

This leading leakage performance is the result of many factors, not least the daily deployment of up to 8,000 'lift and shift' noise loggers, used by our dedicated leakage detection and repair teams. When this is combined with intensive leakage detection teams, focused on finding invisible and difficult to locate leaks, an optimised water network in which pressure is dynamically managed to reduce bursts, and smart sensors that permanently monitor network performance, we are confident that we will continue to deliver industry leading performance.

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

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

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

Throughout the year, we have delivered good performance at our water treatment works, water recycling centres, and across our networks. We continue to see excellent progress in the number of pollution incidents we are seeing each year, reducing from 218 (2017) to 175 (2018). This included one Category 1 incident and five Category 2 incidents, which is also an improvement on last year's performance. We will drive this number even lower through improved use of analytics to monitor and predict asset failure, along with increased telemetry monitoring of our water recycling assets. This year sees us record four and a half successive years without prosecution, and we are ahead of targets for the reduction of internal and external flooding incidents, including our best year to date.

Our Keep it Clear programme, which aims to prevent avoidable blockages caused by fats, oils and grease, reached more than 25,000 people across our communities this year. Alongside this we have visited 2,543 properties in areas identified as 'high risk' to offer advice and gather information on individual waste disposal habits. We have seen a reduction in avoidable blockages of 43 per cent over three years in the 24 hotspot blockage towns.

Fair Charges, Fair Returns
Anglian Water has always raised its debt through UK registered companies, and its debt is listed on the London Stock Exchange. In 2017 it became the first European utility company to issue a sterling Green Bond. Since the successful launch of that debt transaction, the Company has raised a further £580

million of Green Bonds to investors in the UK and US. Crucially, in order to qualify for this green finance, we have not had to change any day-to-day processes or reporting to qualify. Our strong governance culture ensures we continuously drive to generate value for customers and society while delivering environmental benefits. This means that all of Anglian Water's capital expenditure meets the requirements of the Green Bond principles.

We understand that affordability challenges will vary across time for the same household and can be driven by different circumstances. We also recognise that Anglian Water alone cannot solve wider affordability problems, but by linking into and making customers aware of the wider support available, we know we can play an important role.

In the first instance, we are using data analytics to route any calls from customers identified as those with a high risk of affordability issues to our ExtraCare team, where we can check to see if they are claiming all the benefits to which their household is already entitled. We then look to see what help we can provide, including forgiveness schemes, payment 'holidays', leakage allowances, instalment plans and settlement agreements. We also operate a number of tailored tariffs, including the AquaCare Plus and WaterSure concessionary tariffs and our social tariff called LITE. Together, these schemes provided assistance to over 259,000 customers during 2018/19.

We believe using a meter to measure the amount of water a customer uses is the fairest way to charge for water. Use of meters is also known to encourage water saving – typically, customers save over £100 a year and use up to 15 per cent less water when they switch to metered charging. 82 per cent of our customers already receive a metered bill.

Last year, 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 to install water-saving devices. Our Wave programme – where we combine all the elements of metering and water efficiency in defined geographical areas – has made good progress, installing 14,000 new meters and proactively replacing 80,000 more across our region. Alongside this proactive approach, customers can also request a meter. Our target is to have visited 48,000 such customers over the five years to 2020.

We have successfully completed the installation phase of our second smart meter trial in Norwich, installing 11,000 smart meters. These are in addition to the 7,500 we fitted 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. To date we have helped customers identify and fix 1,470 leaks, reducing the volume of water lost to customer side leakage and plumbing loss by 90 per cent.

Our online customer portal that lets people view their own consumption data and see where they could save water is now being used by 2,433 customers. Early signs are that it does help people use less water. All of this insight helped inform our business plan, providing valuable information on the benefits smart metering offers our customers.

Our People: Healthier, Happier and Safer

We firmly believe that there is nothing more important than a healthy and safe workforce. That is why, to-date, more than 3,500 of our employees have been through specially designed LIFE workshops – Living in an Injury Free Environment. Integrated into this is a significant focus on the mental wellbeing of our colleagues, recognising the significant impact we can have.

Technology is assisting in the development of this culture. As well as developing digital training tools we have also built our own health and safety app, which was nominated for IT Initiative of the Year at the 2018 Utility Week Awards. The app provides a simple way of recording all incidents, with the ability to track and monitor progress.

External validation suggests we are achieving excellence in relation to Health and Safety. We have, again been recognised by the Royal Society for the Prevention of Accidents and awarded 'Gold' for our excellent health and safety performance and our effective health and safety management system. We were also the first UK water company to be awarded the ISO 45001 standard for health and safety.

We are also delighted to have been named as the best place to work in the UK, according to Glassdoor. This is particularly pleasing as it is current and past colleagues who provide the feedback on which this award is based.

Attracting future talent is as important as developing the skills of those who already work with us. We have invested in the development of a varied apprenticeship programme, and have fully embraced the introduction of the Apprenticeship Levy, successfully targeting total recovery of our levy payments. This year we have announced 64 apprenticeship places. Around a third of Anglian Water's workforce will retire in the next decade and the apprenticeship scheme enables us to target budding engineers and technicians from the next generation and give them the right skills and experience to join the business. It also enables us to up-skill existing staff.

We now have 18 different programmes ranging from HGV drivers to Masters Degree in Strategic Leadership. Programmes which are largely targeted for the harder to recruit skill areas and new or growing skill requirements are key including programmes for data analysts, project managers, a range of digital skills, customer service and role quantity surveyors.

Joining forces with Capgemini, we are also able to offer undergraduate degree apprenticeships in digital skills which are proving highly successful, and existing employees who are being up-skilled are finding the new opportunities exciting and motivating. The nine apprentices currently employed on this apprenticeship study part time at Aston University over 4.5 years, with work experience in both Anglian Water and Capgemini.

Since 2014 we have recruited 200 apprentices with 93 per cent retention (as of December 2018).

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

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

In December 2018 we set up a Future Leaders Board made up of a diverse group of individuals from across the business who will bring new ways of thinking and challenges to our businesses' decision-making processes. Each board committee member will be in post for 18 months, during which time they will consider the challenges of customer expectation, sustainability, and diversity and inclusion.

<u>Smart Communities</u>

Positive Impact on Communities

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

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

Last year saw the development of our Community Ambassador Programme. The programme trains volunteers from across the company enabling us to get even closer to our customers and discuss the key issues affecting water, with almost 1,200 customers engaged face to face this year. Together with our online customer community and our Customer Board, the programme allows us to put customers' views at the heart of our thinking.

This outreach builds on our education programme, which saw 31,000 future customers in 2018/19. In total, since 2007, our education programme has engaged more than 451,000 school children.

Our water parks remain valuable community assets, and attract around two million visitors each year. Each of our seven parks retained Green Flag status in 2018/19, which recognises well-managed parks and green spaces, setting the benchmark standard for the management of recreational outdoor spaces across the UK and around the world. Our team of park volunteers is now delivering an impressive 3,000 hours each year, helping us deliver fantastic improvements to our parks by fencing, woodland thinning, coppicing and litter picking, while learning valuable skills and training in park and conservation management.

Safe, Clean Water
Nothing is more important to us than the delivery of safe, clean, high-quality drinking water. It underpins the public health of our region and is a fundamental expectation of our customers.

The Drinking Water Inspectorate (DWI) measures performance at our water treatment works (WTWs) and the water travelling through our network supplying homes and businesses. This year we achieved excellent performance again at our WTWs, with just five coliform failures. Our solid performance continued at our storage reservoirs, where we achieved a compliance score of 99.98 per cent this year.

We also achieved 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. This year we achieved 99.95 per cent.

Once again we have seen a reduction in the number of contacts we receive from customers about the taste, odour and appearance of their water, taking us to the lowest level we have ever recorded. We have dropped from 1.23 contacts per thousand people in 2017/18, to 1.18 per thousand people 2018/19.

While we are only responsible for the pipework up to a property's boundary, plumbing fittings on the customer side can still affect the taste, odour or, in extreme cases, contamination of the water supply. In 2018 we inspected more than 8,500 properties, ranging from hospitals to farms and schools to ports. As part of our proactive education programme we are now working with eight plumbing training colleges to educate the plumbers of the future about compliance requirements. We also visited over 1,600 public buildings, such as smaller schools, village halls and community centres, which are often used by more vulnerable groups such as young people or the elderly.

We continue to work with landowners and businesses across the region to address issues such as agricultural pollution, the impact of plastics, third-party pollutions and trade effluent discharges to protect water quality. Improving water at source as opposed to being reliant on treatment solutions is more cost-effective for customers but also can afford wider environmental and social benefits such as improving the amenity and recreational use or increasing habitat and biodiversity. Better quality raw waters are also able to be moved between areas of scarcity, improving resilience across our region.

In a bid to help our farm customers we have supported the installation of 15 weather stations across the region to provide localised weather information, including temperature, evaporation, wind speed, as well as soil temperature and moisture – all critical data to minimise the loss of any chemicals from the land into raw waters. The data is then available via an app that predicts suitable pesticide application up to five days in advance. Currently more than 100 local farmers can receive this data and we are planning a wider roll out in the future.

Delighted Customers
Providing a great service to our customers is business as usual for us. It is for that reason that we are delighted to achieve the number one position in Ofwat's Customer Experience Survey for 2018/19, following our first place in 2017/18. This builds on almost 20 years of upper-quartile performance across a variety of customer and service metrics.

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

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

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

This year, following a formal six-day assessment, we have achieved certification to the British Standards Institutions (BSI) BS 18477 for Inclusion Service Provision - Requirements for Identifying and Responding to Customer Vulnerability. Achievement of this certification really demonstrates our commitment to continually improve and ensure our services are inclusive, available and accessible to all our customers equally, regardless of their personal circumstances. We also successfully gained accreditation from The Institute of Customer Service – achieving their ServiceMark, a national customer service standard.

We now have more than 120,000 customers benefiting from a reduced tariff, and over the next year we will be further developing our WaterCare package of support. Where that extra support is needed, with the customers' consent, we will work closely with the energy sector to introduce a 'tell once' approach. This will avoid customers having to make multiple contacts to their energy and water companies about the extra support they may need.

<u>Smart Environment</u>

Supply Meets Demand

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

This year, we published our 2019 Water Resources Management Plan (WRMP), which sets out how we will manage the water supplies in our region to meet current and future needs over a minimum of 25 years. We will focus on the demand side first to reduce the amount of water used, which is our customers' preferred priority. Demand-side measures include a proposed leakage reduction of 22 per cent by 2025 (and a 42 per cent decrease by 2045); the installation of smart meters, with complete coverage across our region by 2030; and innovative water efficiency schemes built on behavioural change initiatives to help our customers become even more water efficient.

To complement these demand-side measures, we will also invest in supply-side options to increase future availability, detailed in our WRMP. This will include a series of interconnecting pipes across our region to better join up our supply network, moving water from areas of surplus to areas of deficit. We will also consider additional resources for the medium to long term, such as storage reservoirs, water reuse schemes and desalination.

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

Alongside our WRMP, we have also developed our first Water Recycling Long-Term Plan (WRLTP). This has been recognised as industry-leading, with endorsement from a wide range of stakeholders, including the Environmental Agency and local councils. The plan outlines the investment needed over the next 25 years to balance the supply and demand for water recycling services. The plan promotes sustainable solutions for maintaining reliable and affordable levels of service, and facilitates working in partnership with other risk management authorities to mitigate the risk of flood.

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

To support the predicted 20 per cent increase in population over the next 25 years we are working collaboratively with councils to prepare local plans that outline the scale and distribution of housing and economic development across our region. In November 2018 we published Local Plans – An Anglian Water perspective, outlining these objectives, suggested wording for inclusion in local plan policies and how we can support site selection. The intention is to work increasingly closely with councils on the development of their local plans at an early stage as well as continuing to comment at formal stages.

Water Resources East (WRE) is a pioneering multi-sector water management programme in eastern England. WRE is working in partnership to safeguard a sustainable supply of water resilient to future challenges and enabling the area's communities, environment and economy to reach their full potential. Anglian Water has been at the forefront of developing WRE over the last year. With this, Dr Robin Price has been appointed as interim managing director to develop WRE's 2019/2020 business plan, establish and appoint permanent board members, and form a new governance structure. WRE will be officially founded as an independent not for profit company in 2019, with Anglian Water sitting as a principal board member.

WRE has this year helped develop a National Planning Framework with the Environment Agency (EA). Together with other regional groups, it aims to develop aligned and cohesive water management and planning strategies that water companies can unify with when planning for the longer term. WRE has also submitted a number of Environmental Land Management plans (ELMs) to Defra to develop our catchment management approaches.

A Flourishing Environment
Our region is home to more than 700 Sites of Special Scientific Interest, 49 of which we have a dedicated responsibility to protect and enhance. Alongside our management of these sites, there are also many other important sites for wildlife that we care for. This year we have conducted a botanical survey of Whitlingham Marsh, part of Whitlingham Water Recycling Centre, which resulted in the marsh being designated as an official Local Wildlife Site. We have also developed a comprehensive botanical investigation and management plan for Marham Fen, in west Norfolk, to improve the site to become a home for wildlife.

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

We continue to look for innovative ways in which we can both improve the natural capital of our region, and reduce the amount of carbon and energy required to meet the challenges we face. This approach is epitomised in the development this year of a treatment wetland at Ingoldisthorpe, Norfolk, in partnership with the Norfolk Rivers Trust. The wetland is providing additional nutrient treatment for the effluent from our water recycling centre on the site, as an alternative to using expensive carbon and chemical-intensive treatment. In addition, it also creates valuable habitat that would not be developed had we simply built an extension to the works.

Our RiverCare and BeachCare programmes are our long-term partnerships with Keep Britain Tidy to empower communities to look after their local environments. There are now 45 established volunteer groups looking after stretches of river and beach across our region. Earlier this year we launched two new kayaks manufactured from recycled marine plastic litter collected from beach cleans in the south west of England. They are now used for river-based clean-up operations in the Anglian Water region.

The EA classified 32 bathing waters along the Anglian Water coastline as 'excellent' in 2018, with a further nine classified as 'good'. Notable success includes the transition of Cleethorpes from 'Good' to 'Excellent' status, which comes as a result of working closely with the local authority and the EA to continue to improve bathing water quality.

A Smaller Footprint

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. 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.

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

Annual gross operational carbon emissions have decreased by 29.2 per cent in 2018/19 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO2e to 322,201 t/CO2e. Greenhouse gas emission data has been measured and reported in line with the environmental reporting guidelines from the Department for Food and Rural Affairs (Defra). Annual net operational carbon emissions (also subject to audit) have decreased by 29.7 per cent in 2018/19 in comparison to the 2014/15 baseline, reducing from 446,834 t/CO2e to 314,050 t/CO2e. It is noted the 2018/19 carbon emissions are based on latest available estimates.

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

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

Anglian Water Services Limited

Group income statement

for the year ended 31 March 2019

Notes		2019 Underlying results £m	2019 Other items[1] £m	2019 Total £m	2018 (restated) Underlying results £m	2018 (restated) Other items[1] £m	2018 (restated) Total £m
	Revenue	**1,354.7**	**-**	**1,354.7**	1,312.0	-	1,312.0
	Other operating income	**13.6**	**-**	**13.6**	11.1	-	11.1
	Operating costs						
	Operating costs before depreciation and amortisation	**(630.5)**	**-**	**(630.5)**	(592.1)	-	(592.1)
	Depreciation and amortisation	**(348.8)**	**-**	**(348.8)**	(335.6)	-	(335.6)
	Total operating costs	**(979.3)**	**-**	**(979.3)**	(927.7)	-	(927.7)
	Operating profit	**389.0**	**-**	**389.0**	395.4	-	395.4
	Finance income	**2.9**	**-**	**2.9**	1.6	191.8	193.4
	Finance costs including fair value (losses)/gains on derivative financial instruments	**(331.4)**	**(98.4)**	**(429.8)**	(344.1)	117.6	(226.5)
3	Net finance costs	**(328.5)**	**(98.4)**	**(426.9)**	(342.5)	309.4	(33.1)
	Profit on disposal of business	**-**	**-**	**-**	-	4.6	4.6
	(Loss)/profit before tax from continuing operations	**60.5**	**(98.4)**	**(37.9)**	52.9	314.0	366.9
4	Tax credit/(charge)			**5.1**			(34.6)
	(Loss)/profit for the year			**(32.8)**			332.3

[1]Other items comprise fair value losses on derivative financial instruments and energy hedges of £98.4 million (2018: gains of £117.6 million), inter-company interest income from Anglian Water Services Holdings Limited of £nil (2018: £191.8 million) and profit on the disposal of the non-household business of £nil (2018: £4.6 million).

The results, financial position and classification of cash flows for the year ended 31 March 2018 have been restated to reflect the adoption of IFRS 15 ‘Revenue from Contracts with Customers’.

Anglian Water Services Limited

Group statement of comprehensive income

for the year ended 31 March 2019

	2019 £m	2018 (Restated) £m
(Loss)/profit for the year	**(32.8)**	332.3
Other comprehensive income for the year:		
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on retirement benefit obligations	**(18.8)**	77.4
Income tax credit/(charge) on items that will not be reclassified	**3.1**	(13.3)
	(15.7)	64.1
Items that may be reclassified subsequently to profit or loss		
Gains on cash flow hedges recognised in equity	**37.8**	16.4
Gains on cost of hedging recognised in equity	**0.9**	-
Gains on cash flow hedges transferred to profit or loss	**1.5**	1.9
Losses on cost of hedging transferred to profit or loss	**(0.3)**	-
Income tax charge on items that may be reclassified	**(6.5)**	(3.1)
	33.4	15.2
Total other comprehensive income for the year	**17.7**	79.3
Total comprehensive (expense)/income for the year	**(15.1)**	411.6

Anglian Water Services Limited

Group balance sheet

at 31 March 2019

	At 31 March 2019 £m	At 31 March 2018 (Restated) £m	At 1 April 2017 (Restated) £m
Non-current assets			
Intangible assets	**197.3**	168.3	139.4
Property, plant and equipment	**9,770.2**	9,663.7	9,523.1
Investments	**-**	-	1,602.6
Derivative financial instruments	**195.6**	89.6	256.1
Retirement benefit surpluses	**49.3**	56.3	4.0
	10,212.4	9,977.9	11,525.2
Current assets			
Inventories	**11.6**	10.0	9.3
Trade and other receivables	**485.7**	478.9	429.9
Investments - cash deposits	**297.0**	40.0	75.0
Cash and cash equivalents	**257.3**	247.1	354.8
Derivative financial instruments	**20.3**	48.5	12.6
	1,071.9	824.5	881.6
Assets classified as held for sale	**-**	-	85.6
Total assets	**11,284.3**	10,802.4	12,492.4
Current liabilities			
Trade and other payables	**(492.0)**	(512.2)	(452.4)
Current tax liabilities	**(253.0)**	(264.3)	(267.6)
Borrowings	**(315.0)**	(220.0)	(278.4)
Derivative financial instruments	**(16.0)**	(16.4)	(16.3)
Provisions	**(4.2)**	(5.3)	(4.1)
	(1,080.2)	(1,018.2)	(1,018.8)
Net current liabilities	**(8.3)**	(193.7)	(137.2)
Non-current liabilities			
Borrowings	**(6,619.6)**	(6,231.7)	(6,196.5)
Derivative financial instruments	**(980.4)**	(862.6)	(1,043.8)
Deferred tax liabilities	**(936.8)**	(957.4)	(926.6)
Retirement benefit obligations	**(45.8)**	(47.2)	(79.6)
Provisions	**(8.0)**	(10.7)	(10.2)
	(8,590.6)	(8,109.6)	(8,256.7)
Liabilities directly associated with assets held for sale	**-**	-	(11.2)
Total liabilities	**(9,670.8)**	(9,127.8)	(9,286.7)
Net assets	**1,613.5**	1,674.6	3,205.7
Capital and reserves			
Share capital	**32.0**	10.0	10.0
Retained earnings	**1,655.4**	1,769.9	3,316.2
Hedging reserve	**(75.9)**	(105.3)	(120.5)
Cost of hedging reserve	**2.0**	-	-
Total equity	**1,613.5**	1,674.6	3,205.7

Anglian Water Services Limited

Group statement of changes in equity

for the year ended 31 March 2019

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	**Total equity £m**
Year ended 31 March 2019					
At 1 April 2018 (as previously reported)	**10.0**	**1,312.7**	**(105.3)**	**-**	**1,217.4**
Change in accounting policy					
IFRS 9	**-**	**2.0**	**(3.8)**	**1.8**	**-**
IFRS 15	**-**	**457.2**	**-**	**-**	**457.2**
At 1 April 2018 (restated)	**10.0**	**1,771.9**	**(109.1)**	**1.8**	**1,674.6**
Loss for the year	**-**	**(32.8)**	**-**	**-**	**(32.8)**
Other comprehensive (expense)/income for the year	**-**	**(15.7)**	**33.2**	**0.2**	**17.7**
Total comprehensive (expense)/income	**-**	**(48.5)**	**33.2**	**0.2**	**(15.1)**
Issue of share capital	**22.0**	**-**	**-**	**-**	**22.0**
Dividends (see note 5)					
Available for distribution to investors in the ultimate parent company	**-**	**(68.0)**	**-**	**-**	**(68.0)**
At 31 March 2019	**32.0**	**1,655.4**	**(75.9)**	**2.0**	**1,613.5**
Year ended 31 March 2018 (restated)					
At 1 April 2017 (as previously reported)	10.0	2,899.0	(120.5)	-	2,788.5
Change in accounting policy - IFRS 15	-	417.2	-	-	417.2
At 1 April 2017 (restated)	10.0	3,316.2	(120.5)	-	3,205.7
Profit for the year	-	332.3	-	-	332.3
Other comprehensive income for the year	-	64.1	15.2	-	79.3
Total comprehensive income	-	396.4	15.2	-	411.6
Dividends (see note 5)					
Available for distribution to investors in the ultimate parent company	-	(86.1)	-	-	(86.1)
Not available for distribution to investors in the ultimate parent company:[1]					
- One-off restructuring dividend	-	(1,602.6)	-	-	(1,602.6)
- Special dividend to fund the transfer of the non-household retail business	-	(62.2)	-	-	(62.2)
- Servicing of inter-company interest	-	(191.8)	-	-	(191.8)
At 31 March 2018 (restated)	10.0	1,769.9	(105.3)	-	1,674.6

[1]Dividends described as not available for distribution to investors in the ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon (see note 5).

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

Anglian Water Services Limited

Group cash flow statement

for the year ended 31 March 2019

Note		2019 £m	2018 (Restated) £m
	Cash flows from:		
	Operating activities		
	Operating profit	**389.0**	395.4
	Adjustments for:		
	Depreciation and amortisation	**348.8**	335.6
	Assets adopted for nil consideration	**(22.0)**	(20.9)
	Profit on disposal of property, plant and equipment	**(1.2)**	(4.1)
	Difference between pension charge and cash contributions	**(12.7)**	(9.2)
	Net movement in provisions	**(2.7)**	2.2
	Working capital movements:		
	Increase in inventories	**(1.6)**	(0.7)
	Increase in trade and other receivables	**(6.4)**	(49.3)
	Increase in trade and other payables	**9.5**	41.8
	Cash generated from operations	**700.7**	690.8
	Income taxes paid[1]	**(30.2)**	(23.5)
	Net cash flows from operating activities	**670.5**	667.3
	Investing activities		
	Repayment of loans by intermediate parent company	**-**	1,602.6
	Purchase of property, plant and equipment	**(405.0)**	(385.3)
	Purchase of intangible assets	**(65.7)**	(64.3)
	Disposal of business, net of cash disposed	**-**	79.0
	Proceeds from disposal of property, plant and equipment	**1.6**	4.5
	Interest received on deposits	**2.9**	1.5
	Interest received on inter-company loan	**-**	192.3
	Net cash (used in)/from investing activities	**(466.2)**	1,430.3
	Financing activities		
	Interest paid	**(215.8)**	(215.9)
	Debt issue costs paid	**(3.3)**	(1.7)
	Interest element of finance lease rental payments	**(0.6)**	(0.8)
	Increase in amounts borrowed	**447.8**	248.6
	Repayment of amounts borrowed	**(140.0)**	(247.7)
	Repayment of accreted interest on derivatives	**-**	(73.9)
	Repayment of principal on derivatives	**27.0**	-
	Capital element of finance lease rental payments	**(6.2)**	(5.7)
	(Increase)/decrease in short-term bank deposits	**(257.0)**	35.0
	Proceeds from issue of shares	**22.0**	-
5	Dividends paid:		
	Available for distribution to investors in the ultimate parent company	**(68.0)**	(86.1)
	Not available for distribution to investors in the ultimate parent company:[2]		
	- One-off restructuring dividend	**-**	(1,602.6)
	- Special dividend to fund the transfer of the non-household retail business	**-**	(62.2)
	- Servicing of inter-company interest	**-**	(192.3)
	Net cash used in financing activities	**(194.1)**	(2,205.3)
	Net increase/(decrease) in cash and cash equivalents	**10.2**	(107.7)
	Cash and cash equivalents at the beginning of the year	**247.1**	354.8
	Cash and cash equivalents at 31 March	**257.3**	247.1

[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 5).

Notes to the Group financial statements

for the year ended 31 March 2019

1. Accounting policies

The consolidated financial information for the Group is for the year ended 31 March 2019 and has been prepared in accordance with International Financial Reporting Standards (IFRS), and on the basis of accounting policies consistent with those used for the audited financial statements of Anglian Water Services Limited at 31 March 2019. The results have been extracted from the financial statements of the Group for the year ended 31 March 2019, which will be published at a later date.

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

The financial information does not constitute statutory accounts of the Group within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2019 will be filed with the Registrar of Companies and copies will be available from the Company's registered office at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU. The auditor's report on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2018, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies.

2. 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.

3. Net finance costs

	2019 £m	2018 £m
Finance income		
Interest income on short-term bank deposits	**2.9**	1.6
Other interest income[1]	**-**	191.8
	2.9	193.4
Finance costs, excluding fair value (losses)/gains on derivative financial instruments		
Interest expense on other loans including financing expenses	**(220.2)**	(218.9)
Indexation	**(129.6)**	(136.5)
Amortisation of debt issue costs	**(3.7)**	(3.5)
Interest expense on finance leases	**0.3**	0.4
Unwinding of discount on provisions	**(0.3)**	(0.3)
Defined benefit pension scheme interest credit/(charge)	**0.4**	(1.8)
Total finance costs	**(353.1)**	(360.6)
Less: amounts capitalised on qualifying assets	**21.7**	16.5
	(331.4)	(344.1)
Fair value (losses)/gains on derivative financial instruments		
Fair value (losses)/gains on energy hedges	**(1.8)**	7.3
Hedge ineffectiveness on cash flow hedges[2]	**3.4**	(1.2)
Hedge ineffectiveness on fair value hedges[3]	**(0.5)**	(0.8)
Amortisation of adjustment to debt in fair value hedge	**(3.5)**	1.7
Restructuring costs on derivatives	**(11.7)**	-
Derivative financial instruments not designated as hedges	**(72.1)**	114.3
Transfer from hedging reserve arising from discontinuation of cash flow hedges	**(12.2)**	(3.7)
	(98.4)	117.6
Finance costs, including fair value losses on derivative financial instruments	**(429.8)**	(226.5)
Net finance costs	**(426.9)**	(33.1)

[1] Other interest income comprises inter-company interest income from Anglian Water Services Holdings Limited of £nil (2018: £191.8 million).

[2] Hedge ineffectiveness on cash flow hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. Ineffectiveness results from fair value gains on derivatives in cash flow hedge relationships with ineffectiveness of £39.4 million offset by fair value losses on the related hedge risks of £36.0 million.

[3] Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £67.0 million (2018: £72.7 million), offset by fair value losses of £67.5 million on hedged risks (2018: £73.5 million).

4. Taxation

	2019 £m	2018 (Restated) £m
Current tax		
In respect of the current period	**53.9**	44.8
Adjustments in respect of prior periods	**2.0**	(0.8)
Total current tax charge	**55.9**	44.0
Deferred tax		
Origination and reversal of temporary differences	**(52.9)**	(10.7)
Adjustments in respect of prior periods	**(3.8)**	1.8
Recognition of previously unrecognised tax losses	**-**	-
Change in recognised deductible temporary differences	**-**	-
Reduction in corporation tax rate	**(4.3)**	(0.5)
Total deferred tax credit	**(61.0)**	(9.4)
Total tax (credit)/charge on profit from continuing operations	**(5.1)**	34.6

The current tax charge for the year includes payments to other group companies for losses surrendered from those companies and also reflects a charge on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the surplus ACT asset held on the balance sheet.

The current and deferred tax adjustments in respect of previous periods for both 2019 and 2018 relate mainly to the agreement of prior year tax computations.

The corporation tax rate will reduce from 19 per cent to 17 per cent effective from 1 April 2020. In 2018, to reflect reversals during the period to 31 March 2020 we used a composite rate of 17.07 per cent to re-measure the deferred tax balances. For 2019, we are not expecting any net temporary differences during the period to 31 March 2020 and therefore have used a rate of 17 per cent.

The tax (credit)/charge on the Group's (loss)/profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2018: 19 per cent) to the (loss)/profit before tax from continuing operations as follows:

	2019 £m	2018 (Restated) £m
(Loss)/profit before tax from continuing operations	**(37.9)**	366.9
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19 per cent (2018: 19 per cent)	**(7.2)**	69.7
Effects of recurring items		
Items not deductible for tax purposes:		
- Depreciation and losses on assets not eligible for tax relief	**1.2**	0.7
- Disallowable expenditure	**0.7**	0.7
Items not taxable	**-**	(1.9)
	(5.3)	69.2
Effects of non-recurring items		
Profit on sale of business subject to statutory exemption	**-**	(0.9)
Group relief not paid for	**-**	(36.4)
Reduction in corporation tax rate	**(4.3)**	(0.5)
Effects of differences between rates of current and deferred tax	**6.3**	2.2
Adjustments in respect of prior periods	**(1.8)**	1.0
Tax (credit)/charge for the year	**(5.1)**	34.6

4. Taxation (continued)

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

	2019 £m	2018 £m
Deferred tax:		
Defined benefit pension schemes	**(3.2)**	13.3
Cash flow hedges	**6.4**	3.1
Reduction in corporation tax rate - pension	**0.1**	-
Reduction in corporation tax rate - cash flow hedges	**0.1**	-
Total tax charge recognised in other comprehensive income	**3.4**	16.4

5. Dividends

	2019 £m	2018 £m
Dividends available for distribution to investors in the ultimate parent company		
Paid by the Group:		
Previous year final dividend	**68.0**	61.1
Current year interim dividend	**-**	25.0
	68.0	86.1
Dividends not available for distribution to investors in the ultimate parent company		
Dividend paid by the Company in order to service internal interest	**-**	191.8
One-off dividend paid by the Company in order to settle an inter-company loan	**-**	1,602.6
Special dividend to fund the transfer of the non-household retail business	**-**	62.2

Dividends described as 'not available for distribution to investors in the ultimate parent company' are primarily those arising from the structure of the Group and ceased with effect from 31 March 2018.

Anglian Water Services Holdings Limited (AWSH) was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies, referred to as the Anglian Water Services Financing Group or AWSFG and which also includes Anglian Water Services UK Parent Co Limited (AWSUKPC) and Anglian Water Services Financing Plc, protects customers and our debt providers from risks associated with other Anglian Water Group companies outside of the Anglian Water Services regulated "ring fence". This strengthens Anglian Water Services Limited's credit profile and credit ratings, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills. As part of establishing the structure, an inter-company loan of £1,609.1 million was put in place between Anglian Water Services Limited and AWSH, £6.5 million of which was repaid during the year ended 31 March 2012, and the remainder was repaid in full in March 2018 in order to simplify the group structure.

A dividend of £nil (2018: £191.8 million) was paid to AWSH, in order for AWSH to service the interest payable to the Company on the inter-company loan of £nil (2018: £1,602.6 million) mentioned above. These dividends did not leave the Anglian Water Services regulatory ring-fenced group.

On 29 March 2018, following our commitment to simplify our corporate structure, a restructuring dividend of £1,602.6 million (2019: £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 were no longer necessary.

5. Dividends (continued)

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

The Directors have proposed a final dividend for the year ended 31 March 2019 of £2.12 per share, which is a total of £67.8 million. This distribution has not been accounted for within the 2019 financial statements as it was proposed and approved after the year end.