

**Annual Integrated Report 2020**  
**Anglian Water Services Limited**





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# Our Purpose

A stylized yellow arrow graphic pointing upwards and to the right, with a blue and red swoosh above it.

is to bring environmental  
and social prosperity  
to the region we serve  
through our commitment  
to Love Every Drop.



# About Anglian Water

Water is our business. We handle with care and we don't cost the earth.

**Anglian Water is the largest water and water recycling company in England and Wales by geographic area. We supply water and water recycling services to almost seven million people in the East of England and Hartlepool.**

## A company with purpose

We were the first major utility to enshrine our Purpose in the fabric of our Company constitution. We work to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop

## Pioneers in carbon reduction

We were the first water company to set ambitious targets on reducing both capital and operational carbon. We've exceeded our 2020 goals and are on track to reach, and help others to reach, net zero carbon by 2030

## Sector-leading performance on leakage

We lead the water sector on tackling leakage, with water lost per kilometre at half the national average, and are sharing our expertise with others through the Water UK Public Interest Commitment

## Top-quality customer service

We excel at customer service, and are ranked the top-performing water and water recycling company by Ofwat across AMP6 (2015–2020)

## Leading on sustainability

We've been awarded the Queen's Award for Enterprise: Sustainable Development to hold for a further five years from 2020; our strong track record has helped us forge a leading path in sustainable financing for utilities

## Supporting our communities

We're a leading voice in responsible business, awarded Business in the Community's Responsible Business of the Year in 2017. In April 2020 we launched a £1 million Positive Difference Fund to support front-line Covid-19 relief efforts

## Planning for the long term

Our 25-year Strategic Direction Statement and 10 outcomes, developed with customers, guide our vision. That vision has helped us supply 600,000 extra homes since 1989 with the same amount of water

## A leading employer

We've been named the UK's Best Place to Work 2019 by Glassdoor, awarded Business in the Community's Health and Wellbeing Award for 2019 and hold the RoSPA (Royal Society for the Prevention of Accidents) gold award for health and safety, our 16th year of RoSPA recognition

Hartlepool

The East of England

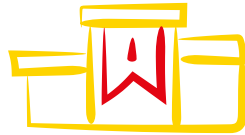




# Our leading performance

Ranked

## #1 Water company



for service delivery 2018/19 in Ofwat's Service Delivery Report

Beat 2020 carbon reduction targets:

## down 61%

on capital carbon and 34% on operational carbon



## Awarded

the Queen's Award for Enterprise: Sustainable Development 2020-2025



Named

## Water Company of the Year 2019

at the Water Industry Awards



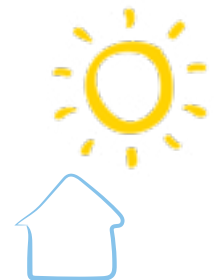
## Best-ever performance

on drinking water quality



## Best-ever year

for renewable energy: 131GWh, enough to power 40,000 homes for a year



Beat regulatory leakage target for the

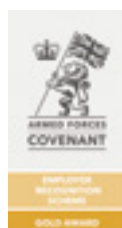
## 9th year running



Named the UK's

## Best Place to Work 2019

by Glassdoor





# Our leadership team

## Anglian Water Services Board of Directors



**John Hirst, CBE**  
Chairman of the Board

INED N R



**Dame Polly Courtice, DBE, LVO**

INED N R



**Natalie Ceeney, CBE**

INED A R



**Zarin Patel**

INED A N



**Paul Whittaker**

INED A N R



**James Bryce**

NED N R



**Niall Mills**

NED N R



**Duncan Symonds**

NED



**Peter Simpson**  
Chief Executive Officer

ED



**Steve Buck**  
Chief Financial Officer

ED

**Key**

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

**Anglian Water Services Management Board**

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

- Peter Simpson** Group Chief Executive Officer
- Steve Buck** Group Chief Financial Officer
- Susannah Clements** Group People and Change Director
- Brian Ebdon** Director of Strategic Planning and Performance
- Iain Fry** Director of Information Services
- Paul Gibbs** Director of Water Recycling
- Ciaran Nelson** Director of Brand and Communications
- Alex Plant** Director of Strategy and Regulation
- Ian Rule** Director of Customer and Wholesale Services
- Claire Russell** Group Legal Director/Company Secretary
- Jason Tucker** Director of Strategic Delivery and Commercial Assurance
- Paul Valleley** Director of Water Services





# Chairman's welcome

**“As we look back over the past year, and forward to the next, it is clear that these are not straightforward times. The two most significant issues facing us are the ongoing impacts of the Covid-19 pandemic – a challenge we share with every business and nation in the world – and, closer to home, the referral of our Price Review for 2020–2025 to the Competition and Markets Authority (CMA) for redetermination.”**

The former has necessitated a wholesale shift in our working practices to keep customers and colleagues safe while delivering our vital service, together with careful financial modelling to ensure we are able to withstand future financial headwinds. The latter has entailed deep soul searching as we seek to make sure we and our regulators are making the right choices for the long-term social and environmental prosperity of our region.

Both have meant adapting to new circumstances, but we have been well placed to do so, thanks to our solid foundations and track record of strong and consistent performance. Whatever the next year brings – and we must acknowledge there is more than a degree of uncertainty about that – I am confident that we will continue to deliver for our customers while protecting and enhancing the environment.

Working together, our people have led the water industry on customer service and tackling leakage, and beaten 2020 carbon reduction goals which seemed almost insurmountable when we set them in 2015. Anglian Water was ranked as the top-performing water and water recycling company in Ofwat's Service Delivery Report in 2019, scoring in the top 25 per cent of companies for seven out of 10 measures, thanks to our constant ambition to push the boundaries of what can be achieved. The award of Water Company of the Year at the Water Industry Awards in May 2019 further underscores our innovative and proactive approach to challenge.



Our successes are inextricably linked to our social and environmental Purpose, enshrined this year when we changed our Articles of Association in July 2019. We have taken important steps to demonstrate that it is lived and breathed in every area of our business, creating a set of values and behaviours with colleagues to underpin it, working with customers to develop a Social Contract and working with BSI, the British Standards Institution, to develop a standard by which we and other responsible businesses can be judged (see [pages 12–13](#)).

We are committed to continuing to operate our business responsibly, for the benefit of our region. As we face the many challenges that lie ahead in the next year and, indeed, in the next five, we do so with a clear sense of public interest to guide us on the right path.

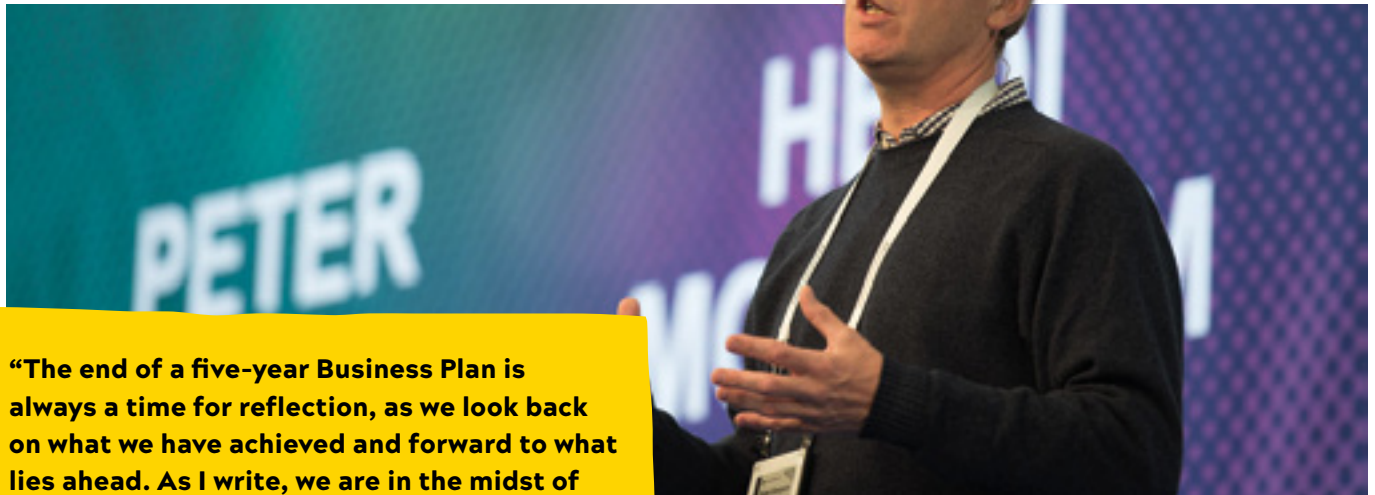
Our outgoing chairman, Stephen Billingham, who led the Board from 2015 to 2020, exemplified that sense of Purpose. He led us through a period of achievement for Anglian Water, but also one during which some very challenging decisions had to be made. On behalf of my colleagues, I would like to thank him for his service and his unwavering focus on doing the right thing.

Indeed, I want to thank all my colleagues and our many supply chain partners in the Anglian Water alliances for their hard work through this very testing year, particularly in light of the Covid-19 emergency. I am grateful to each and every one of them for their contribution, which makes such a positive difference to the communities we serve in the East of England and Hartlepool.

**John Hirst, CBE**  
Chairman



# Chief Executive's statement



**“The end of a five-year Business Plan is always a time for reflection, as we look back on what we have achieved and forward to what lies ahead. As I write, we are in the midst of the biggest challenge the world has faced in my lifetime: the Covid-19 pandemic. We also face significant financial pressures resulting from the Final Determination awarded by our regulator Ofwat in December 2019 for the period 2020–2025.”**

The Business Plan we submitted for Price Review 2019 (PR19) was our most ambitious yet. Guided by the views of more than 500,000 customers and stakeholders, we proposed to invest £6.5 billion to safeguard the long-term resilience of water supplies in the face of climate change and rapid population growth in the East of England. Our plans included the delivery of 500 kilometres of interconnecting pipelines to move water from areas of abundant supply to areas where there is a shortage, as well as investment to reduce the number of customers reliant on a single source of supply, the roll-out of more than a million smart meters and the delivery of an environmental improvement programme double the scale of the last period.

Ofwat's Final Determination, issued in December 2019, allocated Anglian Water £5.7 billion – £744 million below our planned investment, and with a challenging split between operational and capital expenditure. The settlement also set the lowest ever rate of returns to investors, on whose financial support the Company depends.

After taking time to understand all the details of the complex package, the Board's view was that both the structure of the plan and the reduced size of the settlement

offered would lead many areas of the business to adopt short-term, sub-optimal solutions rather than tackling issues head on and creating infrastructure which is fit for the future, as we and our customers agreed we should.

We therefore concluded, after deep and extended reflection, that to accept the Final Determination would compromise our ability to deliver on our stated Purpose, which commits us to bringing environmental and social prosperity to the region we serve. It would also compromise the delivery of the goals set out in our 25-year Strategic Direction Statement. We felt we had no option but to take the next step in the process, asking Ofwat to refer our Determination to the Competition and Markets Authority (CMA) – a decision not taken lightly but after much discussion, and with public interest at its heart.

As we head into AMP7 (2020–2025), we will do so within the constraints of the settlement we have been granted, at least until the outcome of the application for redetermination is known. It is under way and will be marked by a number of statutory engagements with Ofwat and the CMA as it unfolds over coming months. The final outcome will be issued no later than 18 March 2021 – and whether it is positive for Anglian Water or not, our firm belief is that it will have provided a crucial opportunity for regulators to reflect on the regulatory framework for the long term and consider the appropriate balance between investment and customer bills.

During the redetermination process, our full focus remains on running the business. A small standalone team has been created to fulfil the requirements of the CMA, while





for everyone else business continues as usual – with the caveat, naturally, of the further significant challenge we are facing from the Covid-19 pandemic.

As supplier of a vital public service, our priorities throughout the coronavirus crisis have been to keep water flowing to our customers, to protect and support our employees and to offer help and advice, as we have always done, to customers in financial difficulties (see [page 10](#)). We have also stepped up to support our communities through this unprecedented challenge through the launch of our £1 million Positive Difference Fund in April, and by playing a leading role in Business in the Community's Covid-19 National Business Response Network.

In the short term, the primary impacts of the crisis have been related to people and logistics, in terms of ensuring safe working practices for colleagues and customers, and adequate supplies of vital chemicals and personal protective equipment (PPE) – challenges to which we have comfortably risen thanks to our long-standing focus on risk management and forward planning. We have also experienced shifting demand for water, with a commensurate shift in revenue, as domestic customers use more water at home while commercial customers have, inevitably, used far less. Thus far we have not experienced significant levels of delayed payments or bad debt from either domestic or commercial customers, but we recognise both are likely to increase in the coming months, and have made provisions accordingly.

Notwithstanding the ongoing challenges of the Covid-19 emergency, the PR19 process and the rapidly increasing pace of climate change and population growth in our region, there is much room for positivity and pride in this most difficult of years.

I am particularly proud of our progress on embedding our long-standing commitment to working in the public interest. Last year we became the first major UK utility to enshrine social and environmental purpose into the fabric of our Company constitution when we enhanced our Articles of Association in July 2019.

I'm also hugely proud of our industry-leading action on carbon reduction. This year we have not just met but exceeded the hugely ambitious 2020 carbon reduction goals we unilaterally set for the business at a time when reducing carbon was not on most utility firms' agendas.

In 2010 we became the first water company to target, measure and report on our operational and capital carbon footprint. Working with government and other leading businesses, in 2016 we developed the world's first standard for managing carbon in infrastructure (PAS 2080), which is now being used internationally. Applying its principles has led to us more than halving the carbon in what we build and unlocking financial efficiencies.

The immense progress we have made will provide us, and others, with a strong platform for sustainable recovery from the impact of Covid-19 as we seek, in the words of the United Nations, to 'Build Back Better'.

On that note we were delighted this April to be awarded the Queen's Award for Enterprise: Sustainable Development for a second time. We were first awarded it for a five-year period in 2015, and it is a testament to the long-term focus on sustainable practices across our whole operation and supply chain that we have secured it for a further five years to 2025.

We end the AMP with a projected £59.3 million of outperformance payments, reflecting how well we have delivered for customers across a range of very stretching Outcome Delivery Incentives over the past five years, as well as completing a £2.2 billion programme of capital investment. During the 2015–2020 period, this outperformance, arising from the efficiency of our operation, enabled us to reinvest £165 million in services and in resilience schemes. This follows a reinvestment in the previous five-year period of some £400 million to benefit our customers.

We have been able to achieve these efficiencies by constantly challenging ourselves and our supply chain partners to find new and better ways to deliver our service to customers. We have also done so while delivering the lowest price increases of any water company since the industry was privatised in 1989.

The standards we have been able to achieve in areas including carbon reduction, leakage, water quality and customer service have, in turn, reset standards for performance across the water industry. We have led the water industry on leakage reduction, delivering our best-ever performance, and maintaining leakage levels that are around half the industry average. Crucially, too, the quality of the water we deliver to millions of customers around our region has never been better, and we continue to be recognised as a leading water company by the Drinking Water Inspectorate (see [page 57](#)).

However, the year has not been without its performance challenges. Our resilience was tested in December 2019, when water supplies to customers in Leighton Linlade were interrupted (see [page 53](#)), causing us to fall short of our interruptions to supply target. Since the incident I have personally overseen a comprehensive 'lessons learned' exercise. Our region also experienced widespread flooding this year, which contributed to a rise in pollution incidents following the significant reductions we had achieved in AMP6, and a reduction in the number of bathing waters rated 'Excellent' (see [page 49](#)). Our ultimate target is to reach zero pollutions and we are utterly committed to reaching that goal through continued investment and innovation.

In closing, it is important to highlight that none of the achievements of the past 12 months, or indeed the past five years, would have been possible without the enduring commitment and dedication of my colleagues and supply chain partners. I am grateful to them for the personal resilience they have shown, particularly this year. The next five years will be far from plain sailing, but together, with our Purpose guiding us, I know we will rise to meet the challenges that lie ahead.

Peter Simpson  
Chief Executive Officer



# Organising Anglian Water for Covid-19

**The risk of a pandemic has been on our corporate risk register for many years, and we have robust plans in place to deal with this type of threat.**

From the outset of the Covid-19 outbreak, we aligned our internal activity and messaging to our workforce and customers with the government guidelines from Public Health England. Despite a rapidly changing situation, this enabled us to maintain a consistent and proportional response.

In January we set up a Strategic Planning Group led by a Director to oversee and coordinate preparation across our business as the global picture unfolded. As the crisis escalated, we stood up an enhanced and sustainable incident command structure, influenced by the military and emergency services' interoperability doctrine, that fitted in well with the organisation's regular bronze, silver, gold and MIST (Major Incident Strategy Team) command and control functions.

Adopting this structure enabled us to coordinate a range of functions to address potential impacts from Covid-19 – such as resource planning, reduction in revenue, maintenance of essential assets, provision of personal protective equipment (PPE) and analysis of supply chain resilience – while simultaneously evaluating triggers for escalation and response as the situation evolved.

Structuring ourselves in this way established a governance model that allowed us to maintain a high level of situational awareness across the business and more broadly with our stakeholders. This shared awareness allowed us to deal with surges of activity and ensured a consistent and comprehensive approach to how and when we communicated to the business.

Our business continuity plans are being continually refreshed to ensure that we have sufficient support and backfill options for a potential 'second wave' of the virus. We have made a significant push to reinforce and increase numbers in Anglian Water Force, our group of volunteers from across the business who are trained to respond in the event of any operational incident (see pages 52–53). This will provide much-needed resilience should we find ourselves in the worst-case scenario of a major incident taking place during high absenteeism of a second wave.

Throughout the crisis we have been involved with Water UK's Platinum Incident Management group and have been active in sharing best practice in how we have all dealt with the challenges of Covid-19 with our peers, as well as learning from them. We have also liaised regularly with the Department for Environment, Food and Rural Affairs (Defra), the Drinking Water Inspectorate, Ofwat, the Environment Agency and our partners through our Local Resilience Forums to ensure that we can support the response to Covid-19 at both a local and national level.

## Key business and stakeholder risks

## Company response

### Colleagues

Covid-19 may cause significant disruption through either absence due to sickness or the need to self-isolate, but also through less obvious routes, such as the provision of childcare, lost productivity and people postponing leave until later in the year.

From the very beginning of Covid-19 we have been dedicated to keeping our people and our partners updated and included on our planning and thinking.

Following government guidance, we moved 3,000 office-based colleagues to working from home, and put clear safeguards in place for those carrying out critical and essential tasks in the community and at our sites.

In late April we conducted a survey of our entire workforce and that of our alliance partners, the results of which have allowed us to better understand where we need to focus our support and efforts for everyone's wellbeing. A financial assistance fund has also been established to support colleagues whose households find themselves facing financial difficulty.

### Customers

Covid-19 is causing great uncertainty for all, with a risk that many customers may find themselves in financial hardship. Added to this is concern around the provision of basic services, such as clean water and water recycling.

As the impacts and situation of the coronavirus pandemic began to escalate, we rapidly implemented our contingency plans to ensure whatever happened we could maintain our essential services and conversations for and with our customers, particularly those needing extra help, those who were self-isolating and those in a vulnerable situation.

Widespread promotion of our WaterCare service has been key to letting our customers know we are here to help, from providing financial advice and assistance to registering them onto our priority service register.

Our new ExtraCare teams launched in June 2019 which, using income maximisation tools, meant we have been able to signpost customers to an extensive range of affordability measures, income benefit channels and relevant external charities and help organisations.





## Key business and stakeholder risks

## Company response

### Reputation and corporate standing

There is little doubt Covid-19 is causing significant disruption to the local and national business environments. In that context there is a risk our response is inconsistent with our values as a company and/or out of step with the industry as a whole.

Throughout the crisis we have worked closely with Water UK and all our water industry peers to ensure that we have maintained a joined-up industry approach to tackling the challenges of Covid-19.

In April we launched the £1 million Anglian Water Positive Difference Fund to support our communities through this challenging time. The fund is being distributed through a locally appointed partner which has expertise in getting money quickly to areas in which it is most needed. Organisations such as food banks, outreach programmes and those helping the most vulnerable will all be supported across our region. Half of the fund has immediately been made available to support community organisations on the front line of the battle against coronavirus, with the remainder released to meet emerging needs later in the year. Through our regional leadership of Business in the Community (BITC), we were instrumental in setting up the National Business Resilience Network, a virtual notice board that promoted a brokerage service between BITC members and organisations within our community that needed help.

### Supply chain

Covid-19 may cause large-scale disruption to both global and local supply chains, with the potential for large parts of our supply chain to be severely affected. This could be from both a labour force and upstream and downstream supply chain perspective.

We have actively engaged with suppliers during the Covid-19 emergency, including reducing the time taken to make payments; helping to support and advise many small and medium-size suppliers with access to advanced procurement opportunities; supporting staff within some supply chain companies who have been hit with pay reductions by their employer; and issuing permits to identify the partner and supply chain workforce as key workers.

We have assessed critical suppliers and have a range of mitigations in place. We remain in regular dialogue with key suppliers to assess their business stability and mitigation strategies.

### Revenue

The uncertainty and disruption caused by Covid-19 and the likely fall in business and consumer confidence could place a strain on the cash position of Anglian Water.

We have engaged with the regulator at an industry level regarding risk exposure within the non-household retail market. These discussions have resulted in a cap on bad debt levels for retailers, agreement on wholesaler injection of liquidity in the market through partial deferral of charges for retailers to prevent a structural failure of the market, and importantly a cap on wholesaler exposure to bad debt from retailer failure.

Lockdown has resulted in increased consumption of around 10 per cent. Although meter reading was initially suspended as a non-essential task, we continued to track usage through smart meters and self-supplied meter readings.

Our Development Services connection and main-laying teams have continued to operate throughout lockdown, supporting the construction sector.

### Financing our business

Covid-19 is causing increased volatility in the financial markets and the combination of all these stakeholder risks has the potential to impact the financing of the Group's activities.

We are monitoring very closely the effects of market volatility and stakeholder risks on our financial affairs and maintaining a close dialogue with our lenders and shareholders. We maintain high levels of liquidity to enable the business to respond to the disruption being caused, sustain levels of service and continue with infrastructure development.

### Infrastructure and asset health

Covid-19 may stress our asset infrastructure through changes to customer behaviour, or limitations on our field force in the event of reduced manpower.

After working carefully to ensure Covid-19 secure practices for staff travelling to, and working on, our sites, the great majority of our operational work has continued throughout the lockdown, with the exception of those projects that require entry into customers' homes and delays to the commencement of our smart metering and Strategic Pipeline Alliance programmes.

This essential work has ensured we have been able to provide the levels of service that our customers always expect and rely upon.



# Enshrining our Purpose

With the climate emergency accelerating and our population growing rapidly, people are looking more than ever before to business to provide answers to social and environmental challenges – an impetus brought into even sharper focus this year as companies large and small around the world have played their part in tackling the Covid-19 outbreak.

Given our essential role in a critical service, water companies have a huge opportunity – and indeed responsibility – to contribute to the environmental and community wellbeing of the regions where we operate. That is something we have long been acutely conscious of at Anglian Water, and we have played a leading role in showing how social and environmental purpose can be embedded within corporate structures, as was highlighted by the British Academy in its influential report *Principles for Purposeful Business*, published in 2019\*.

With our shareholders' support, in July 2019 we became the first major utility to change our Company constitution – the Articles of Association – to lock public interest into the way we run our business, both now and for future generations. By doing so, we have ensured that environmental and social priorities will always sit alongside the need to deliver fair returns for our shareholders. This change underlines our commitment to deliver a sustainable future for the East of England.

That commitment is not new, however. It goes back many years, even before we set out our Love Every Drop strategy in 2010. We first considered climate change in our assessment of water resources back in 1993, and our education programme has reached nearly half a million people since its launch in 2006. In 2015 we were awarded the Queen's Award for Enterprise: Sustainable Development in recognition of our work, while in 2017 we were named Responsible Business of the Year, in large part due to our community regeneration work in Wisbech. We were delighted to learn in April 2020 that we had been awarded the Queen's Award for Enterprise: Sustainable Development for a second time. The award citation said Anglian Water "demonstrated clear sustainability leadership, adopting an exemplary approach in formalising its commitment through amendments to its Articles of Association".

**"This change to our Articles of Association crystallises a journey we've been on for many years and will ensure that public interest remains at the heart of Anglian Water for generations to come."**

**Peter Simpson, CEO, Anglian Water**



**As part of the change, our Directors made an explicit commitment to continually consider:**

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

\* <https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business>



## How we have confirmed our commitment

Setting an example for other UK businesses, we enriched our Articles of Association to formally enshrine the principle that Anglian Water will conduct its business and operations for the benefit of shareholders while also continuing to deliver long-term value for the Company’s customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. We have summed this up in a simple statement of our Purpose:

**“Our Purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.”**

We are already backed by pension funds representing local authorities and other public sector workers in the UK and overseas. We hope our Articles will continue to attract responsible long-term investors who share our values.

Having enshrined public interest into the fabric of our business, we are going even further to embed this approach in every area of our operations. Five tangible ways in which we are doing so are:

- Adopting the six capitals decision-making framework in our investment decision-making process (see [page 15](#)).
- Co-creating with our colleagues a simple but powerful Values framework which gives us all a common goal – or North Star – to work towards (see [page 66](#)).
- Creating a Social Contract in partnership with our customers and stakeholders (see [page 14](#)).

- Committing to adopt a Statement of Responsible Business Principles. We are working with the British Standards Institution and the Cambridge Institute for Sustainability Leadership to develop a Publicly Available Specification (PAS) on the principles of sustainability and leadership in business, with the goal of creating a benchmark against which we and other responsible businesses can measure and report on our progress. Pending its development, we are holding ourselves to account in relation to the standards set out in Business in the Community’s Responsible Business Tracker, developed as a measurement tool to motivate change and improve business performance across all areas of responsible business. In 2019/20 a cohort of 94 companies from 24 sectors used the tracker to benchmark performance. Anglian Water’s overall score was 73 per cent, while the average score of the benchmark group (energy/utilities) was 61 per cent and the full cohort was 41 per cent.

- Bringing forward the planned launch of the £1 million Anglian Water Positive Difference Fund to respond to the Covid-19 emergency (see [pages 10–11](#)).

We are playing a leading role in driving forward the water industry’s five shared goals through the Public Interest Commitment made in April 2019. Our CEO Peter Simpson is co-sponsor of the leakage and net zero carbon goals – areas on which Anglian Water’s track record is particularly strong. The five goals commit us collectively to:

- triple the rate of sector-wide leakage reduction by 2030
- make bills affordable as a minimum for all households with water and sewerage bills more than 5 per cent of their disposable income by 2030 and develop a strategy to end water poverty
- achieve net zero carbon emissions for the sector by 2030
- prevent the equivalent of four billion plastic bottles ending up as waste by 2030
- be the first sector to achieve 100 per cent commitment to the Social Mobility Pledge.

We have continued to make significant progress over this past year – but it is important that we recognise it as part of an ongoing journey. We are confident, however, that we are on the right path.







# Our Social Contract



## Working with purpose to create a sustainable future

We have an unrivalled opportunity to have a positive impact on the environment and the communities we serve. And our millions of customers have a key role to play in achieving that positive outcome. That's why, as we enshrine our long-standing commitment to working in the public interest, we've worked with them to develop a two-way Social Contract, which sets out how we can work together to protect and enhance our environment and deliver social prosperity to our region.

Our customers' views play a huge part in shaping our thinking – see 'Our stakeholders' ([pages 20–27](#)) to find out how. In developing our Social Contract, a two-way document combining commitments from Anglian Water with a toolkit of positive steps customers can take, we have worked in partnership with our customers to really understand and address their priorities. We have held face-to-face workshops, consulted our Customer Engagement Forum, Customer Advisory Board and online customer community and surveyed our employees. The results told us that words are good but what matters is action. Customers want to see progress in their local



area, understand how we are making a difference to their community, and be equipped with the knowledge and tools to make positive changes themselves.

What we heard was that everyone understood the imperatives of the climate crisis on one hand but also wanted to enable sustainable growth on the other. What we needed to do was articulate how our Purpose, our 10 long-held outcomes and our Business Plan would lead us to a more sustainable future, how we would demonstrate action and, importantly, how we could enable customers to do their bit too. As our Customer Advisory Board told us, "a contract should be a two-way thing".

So this is what we are creating: a two-way Social Contract that will set out the challenges, outline our continuing contribution to a sustainable future and enable customers to play their part too.

The contract will bring together the Public Interest Commitment, which we signed up to with our fellow water companies in England in April 2019, on net zero carbon, leakage, social mobility, affordability and plastics reduction, with new commitments developed through the consultation. We will align them with our Business Plan Outcomes and report back on how we are delivering them.

The Covid-19 crisis has meant that we have had to delay the finalisation of the contract as we focus on delivering our vital service to customers. However, it has meant the acceleration of one central aspect of it.

One of the most consistent pieces of feedback we received was that everyone was hugely impressed by and supportive of the work we do with the charity WaterAid (see [page 71](#)). But we were asked, where is the equivalent programme for support in the East of England? So, as part of the Social Contract, we planned to launch a new fund aligned with our Positive Impact on Communities outcome, supporting our Public Interest Commitment to give 100 per cent commitment to the Social Mobility Pledge.

When the Covid-19 emergency hit, the Board took the decision not to wait for the Social Contract to be finalised and instead to launch the Anglian Water Positive Difference Fund (see [page 11](#)) immediately.

We wanted to make sure this fund would have the greatest impact at the time of greatest need and it is an example of how the Social Contract will demonstrate our Purpose. The remaining elements of the Social Contract are being finalised and will be launched at an appropriate time later this year.



# Six capitals thinking

Having enshrined public interest into the heart of our business, we are now working to embed it into decision making.

Our Board has committed to using six capitals thinking. This framework is not new to Anglian Water – this way of thinking was first introduced into our Annual Integrated Report in 2015 – but we will now formalise its use as we begin to deliver our new five-year Business Plan.



## Natural

The health of the natural systems and resources that we rely on and impact in our region and beyond; the availability and quality of water in our rivers and aquifers; the protection of our soil and biodiversity; and our impact on carbon emissions.



## Manufacturing

The ability of our infrastructure to provide resilient services to meet the current and future expectations of our customers.



## Social

The value of our relationships with stakeholders, including customers, communities and other organisations; the impacts we have on people and society (both positive and negative) and the trust they place in us as a result.



## People

The knowledge, skills and wellbeing of our people; the health, happiness and safety of our working environment; and our organisational culture and ways of working.



## Financial

The financial health and resilience of the organisation and our access to and use of sustainable finance.



## Intellectual

The knowledge, systems, processes, data and information we hold, create and share within our business and with our alliance partners.

Using six capitals thinking will help us keep our responsibility to customers, communities and the environment at the front of our minds when making business decisions. This is a commitment that we are making in our Social Contract, aligned to our Investing for Tomorrow outcome.

We're developing a set of metrics for each of the capitals to help us understand, track and report on our impact on them at the corporate level. These will be reported as we move into delivering our next five-year Business Plan.

We have also identified key metrics to embed in our decision-making processes, starting with our capital delivery programme, but with the aim of integrating these into the processes for purchasing, strategic and operational decisions over the course of AMP7 (2020–2025).

In the capital delivery programme these metrics are designed to stimulate the creation of options with a wider range of value creation across the six capitals, and therefore move examples of best practice and innovation into business as usual.



# How we're addressing challenges and opportunities

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

Climate change, population and housing growth and the need to protect and enhance the natural environment are all challenges that are particularly acute in our region. Others, including acting in the public interest, delivering affordable services, meeting customer expectations and planning for the long term, are common to the whole water industry.

The primary risks facing our business are set out on [pages 77–87](#) and cross-referenced where relevant opposite.

Two of our most significant challenges – Covid-19 and the ongoing redetermination of our Final Determination for 2020–2025 – are covered elsewhere, and have therefore not been covered here.

The current, future and potential impact of Covid-19 is covered on [pages 10–11](#), while the challenge posed by the Final Determination we were awarded in December 2019 is covered in Peter Simpson's statement on [pages 8–9](#).

### Climate change



Ours is the driest region in the UK, and particularly vulnerable to climate change – low lying, with a long coastline and low rainfall. Water resources are already scarce, and climate change will reduce them further. Yet at the same time we face the threat of more frequent flooding in this low-lying part of the country due to more intense rainfall and rising sea levels. Therefore, reducing our carbon emissions and adapting to the climate emergency is embedded in everything we do. Our investment plans for the next five years are directed at reducing drought and flooding, which are our key climate-related risks. This year we completed a thorough review of all our climate-related risks. These are described in our latest Adaptation Report alongside the actions we are taking to increase our resilience. The final Adaptation Report will be submitted to the Government following a public consultation. See 'Long-term supply and climate change', [page 81](#).

### Environmental priorities



Water is vital for the natural environment as well as for public health, farming and industry. Our newly stated Purpose, enshrined in our Articles of Association, commits us to achieve positive outcomes for the environment as well as society, building on our existing 25-year goal to work with others to improve the ecological health of catchments across our region. Following our strong performance in AMP6, we have by far the largest Water Industry Natural Environment Programme (WINEP) among water companies in England and Wales, a doubling in number of commitments over the next five years. We will also, as far as the Final Determination funding set out by Ofwat for 2020–2025 allows, take forward our Water Resources Management Plan so that we can both accommodate significant housing growth and reduce the amount of water we abstract from the environment. See 'Pollution', [page 82](#), and 'Water quality', [page 87](#).

### Population and economic growth



Our region is one of the fastest growing in the country. Growth projections exceed 175,000 new homes over the next five years – without factoring in the proposed Oxford–Cambridge Arc. By 2040, the region's population may grow by a further million people, and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services. To help this, we are working to build an infrastructure alliance that helps the government develop its plans for the OxCam Arc. See 'Regional growth', [page 80](#).

### Affordability and customer expectations



Customer expectations of service-orientated businesses continue to rise. While we delivered industry-leading customer service for the 2015–2020 period, we will continue to improve our offering. Ofwat plans to benchmark our performance not just against other water companies, but in comparison to the biggest brands in business – John Lewis, Amazon and Apple. We will use every opportunity to delight our customers, and create new ways to engage them through our contact centres, our digital channels (including our new smartphone app, tied to data from smart meters as they're rolled out), our colleagues in the field and our water parks. See 'Customer satisfaction', [page 84](#).

### Demonstrably acting in the public interest



Talking to our customers and other stakeholders it's clear they expect us to do more than deliver the basics brilliantly. They expect us to continue to be a force for good, stepping up to help tackle big social and environmental challenges. We were the first water company to enshrine these wider public interest objectives in our Articles of Association. We will continue to demonstrate how our responsible and sustainable approach is not only desirable but core to our success. Working with the British Standards Institute and the Cambridge Institute for Sustainability Leadership, we are developing a Publicly Available Specification (PAS) that will allow us and other businesses to codify and benchmark our approach as a purpose-led responsible business against best practice around the world. See 'Political, regulatory and legislative changes', [page 78](#).

### Planning for the long term



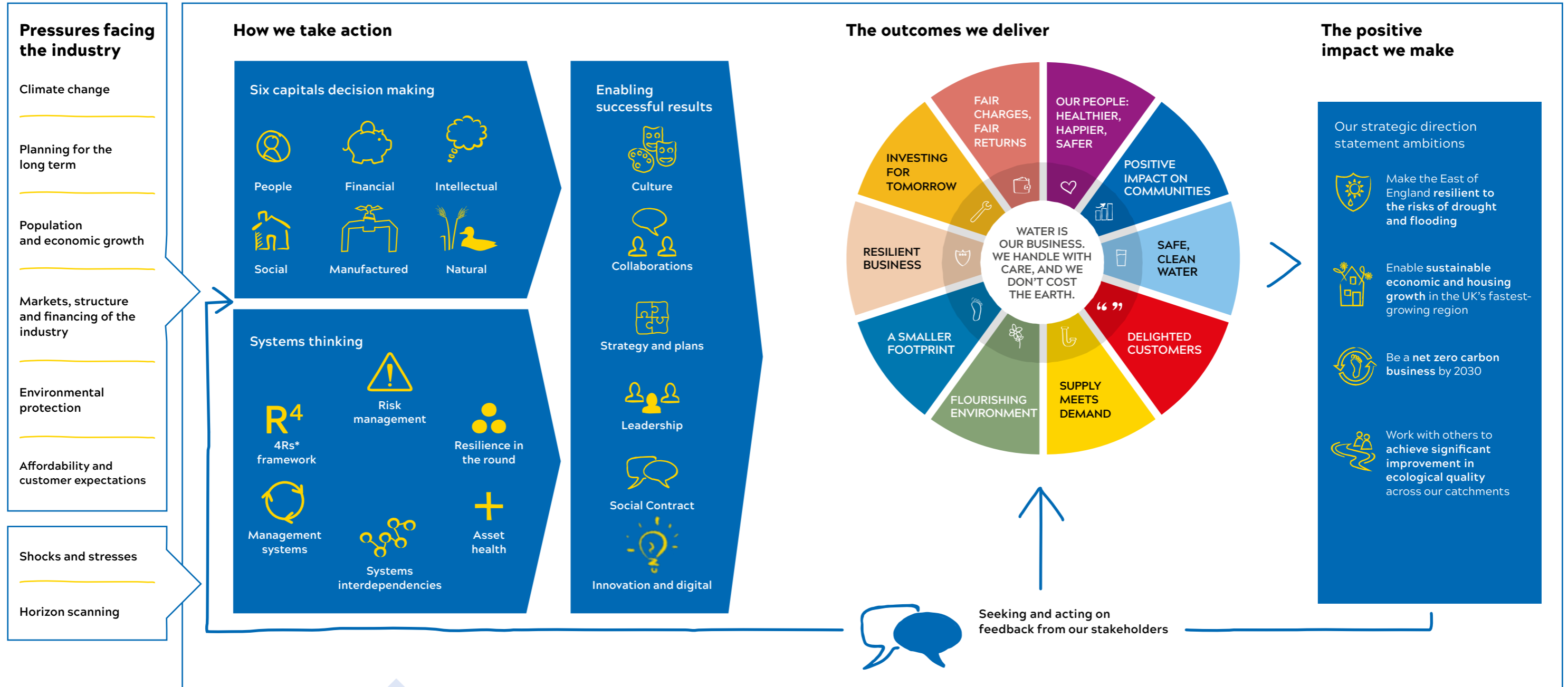
The nature of the water industry requires us to take the long view – planning years, and even decades, ahead on issues including water resources, asset maintenance, advances in technology and closing the skills gap. We look to tackle these in collaboration with others and by shaping our long-term vision in accordance with our 25-year Strategic Direction Statement, published in 2007 and refreshed in 2017 to meet developing priorities. Where possible, we look to lead and shape the regional and national conversation to secure the action and investment needed for a sustainable future. See 'Preparing for AMP7', [page 82](#), and 'Long-term supply and climate change', [page 81](#).



# Our business model

Creating value for our communities

Our purpose is to bring environmental and social prosperity to our region through our commitment to Love Every Drop. Our business model is structured to create long-term value for customers, employees, investors, business partners and the wider community.



Global drivers for change – United Nations Sustainable Development Goals



\* The 4Rs of Resilience refers to Resistance, Reliability, Redundancy and Response & Recovery.



# Our stakeholders and our approach to engagement



This section sets out both how the Board engages with stakeholders and how this engagement influences the decisions it makes over the long term. Section 172 of the Companies Act 2006 requires our Directors to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. While this duty is not new, this year companies are required to report explicitly how the Board has had regard to the matters set out in section 172. Further information on the operation of the Board can be found in the Corporate Governance Report on pages 101–109.

At Anglian Water we have gone far beyond the statutory requirements set out in section 172. In July 2019, on the recommendation of the Board and with the approval of our immediate and ultimate shareholders, we became the first major utility to amend our Articles of Association to enshrine, for the long term, the principles of section 172 and our long-standing commitment to working in the public interest (see pages 12–13), ensuring our stakeholders' priorities remain at the heart of Anglian Water for years to come. Additionally, the Company will hold itself to account against a set of Responsible Business Principles (see pages 12–13) and has developed a two-way Social Contract with customers (see page 14).

We have set out to define discrete stakeholder groups, but we recognise that in many cases they have complementary interests and shared priorities. On occasion, their concerns may even conflict with one another. The Board's duty, in reviewing, challenging and shaping plans, and setting

strategic direction, is to consider and balance the impact on a wide range of stakeholders of the decisions made. As set out in our business model (pages 18–19), this process is informed by the six capitals framework, the use of which is being extended and formalised from April 2020 (see page 15). Our business model also highlights how the strategic direction of the business and the outcomes we deliver are informed and shaped by feedback from our stakeholders.

Engagement with stakeholders is most effective when it is continual and two-way, and when its outcomes are recorded, shared and acted upon. We have developed an annual stakeholder strategy and plan, approved by the Board and rooted in our environmental and social Purpose, to shape engagement with external stakeholders (engagement with employees is captured on page 22 and pages 66–69) and ensure their voice is present in our Board decision making. The development of our Business Plan for 2020–2025 illustrates the importance of this two-way engagement (see Customers and communities, opposite).

There are some issues which are of such importance that the Board itself judges that it should engage directly with relevant stakeholders. However, the size and spread of our stakeholders mean that much of our stakeholder engagement is more effective if it takes place at an operational level. Where the Board is unable to engage directly with stakeholders, it ensures that it receives reports from management regarding this engagement, so that the Directors are able to understand and take account of the issues to which they must have regard.



“ ”

“Attending one of the customer co-creation sessions for developing Anglian Water’s Social Contract revealed a high level of interest, but also a high level of expectation. What customers told us was they appreciated the Company’s stated aspirations to do the right thing for people, customers and the environment, but what they really wanted to see was tangible evidence in their own communities. This means not just delivering outstanding performance on the basics – delivering and recycling water, and avoiding pollutions and leakage – but also support for the vulnerable, and practical action on some of the big issues, such as climate change and single-use plastic pollution. Customer engagement like this has been formative in Board discussions on our strategy.”

**Dame Polly Courtice**

Senior Independent Non-Executive Director, Anglian Water



## Section 172 statement

The following pages (21–27) set out why and how the Board and the Management Board engage with our principal stakeholder groups, together with examples of engagement that has taken place during the reporting year. We have also highlighted on [page 27](#) some examples of key decisions made during the year and how the priorities of stakeholders have influenced them.

### Stakeholder

#### Customers and communities

Our Purpose is to bring social and environmental prosperity to the region we serve. We can only do that effectively when we understand our customers' priorities and those of the communities across our region. We use the feedback they share to shape our plans and strategies to meet their needs and aspirations.

#### How we engage

Engagement with customers and communities is fundamental to the development of our strategies and plans, as well as shaping the day-to-day delivery of our service. Our Business Plan for 2020–2025, awarded the highest rating by Ofwat for customer engagement, was developed through interaction with over half a million customers and stakeholders, and we have continued to engage with them to shape our thinking at every stage of the process. The Board oversaw all aspects of the business planning process, including the Customer Engagement Strategy (as it confirmed in its Board Assurance Statement, see: <https://www.anglianwater.co.uk/siteassets/household/about-us/pr19-revised-board-assurance-statement.pdf>). More generally, the Board considers and challenges plans involving both short- and long-term strategy in relation to customers and communities, engages with presentations from managers on key issues that impact customers and takes part in customer workshops. During the PR19 planning process, members of the Board demonstrated their commitment to engaging with customers by attending PR19 customer engagement events, focus groups and meetings of the Customer Engagement Forum (CEF). The CEF was set up in 2011, and has an ongoing role that involves challenging us on how we engage with customers and monitoring performance in relation to commitments made to customers. Its members come from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy. We engage weekly with an online community of 500 customers, asking their views on a wide range of topics. We also have a Customer Board comprising a representative selection of members from the online community to provide further guidance and directly feed in customers' views, running alongside the CEF.

The Management Board (led by our CEO Peter Simpson) is actively involved in the development of our customer service offering, monitoring and acting on the results of the quarterly customer service surveys conducted by Ofwat. Peter Simpson routinely reports to the Board on customer service performance, and the Board actively debates the root causes of any deterioration in performance while encouraging recognition for excellent performance.

Further engagement with customers takes place through our education and community ambassador programmes (see [page 71](#)) and through stakeholder workshops and consultations.

#### Key areas of engagement in 2019/20

- **Business Plan 2020–2025 (PR19)** See [page 27](#).
- **Social Contract** See [page 14](#).
- **Business in the Community (BITC)** Peter Simpson chairs BITC's Leadership Team in the East of England, which includes representatives of other BITC member companies in the region. This group has taken on the learning of our experience of community regeneration in Wisbech and is now mirroring this approach in Lowestoft (see [page 71](#)). This engagement led to our involvement with BITC's response to Covid-19 and the development of the National Business Response Network, which, in turn, led to the development of elements of our community response to the Covid-19 crisis.





## Stakeholder

### Employees

Everything we achieve as a business is through our people – which, in our case, extends to the thousands of people working on behalf of Anglian Water through our supply chain (covered in more detail on [page 26](#)). We engage with them to safeguard and promote their health, safety and wellbeing, and to ensure that they are living our values in their daily work and interactions with our customers.

### How we engage

The welfare and development of Anglian Water's employees, and our Company culture and values, are key areas of focus for the Board and its Committees, and employee-related issues are covered at every Board meeting. These range from health, safety and wellbeing and employee engagement to inclusion and succession planning.

In 2019 Non-Executive Director Niall Mills took on the role of representing the voice of employees on the Board (see [page 27](#)). He and other members of the Board and, on occasion, the full Board, periodically visit different sites to meet with employees. The Head of Safety joins Board meetings quarterly to discuss and shape health and safety strategy and performance, giving the Board the opportunity to challenge progress where Directors feel it is necessary. Those discussions are informed by reports from our 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.

More broadly, we use a wide range of communication channels to ensure we reach all colleagues including office- and field-based colleagues. We also hold regular face-to-face events for front-line managers and leaders, led by our Management Board. Our Future Leaders Board (FLB), made up of a diverse group of colleagues from across the business, brings in new and different perspectives and drives business change projects. Stephen Billingham, in his capacity as Chairman, met with the FLB during the year to understand their perspective on the Company and listen to their suggestions for initiatives.

Anglian Water recognises three trade unions, with whom management meets regularly for collective bargaining and consultation purposes. We also operate a further elected employee forum, Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and consider suggestions for change. Once a year we seek the views of all employees through our comprehensive Love to Listen survey.

### Key areas of engagement in 2019/20

- **Values and behaviours** We worked with employees, starting with a culture capture exercise in 2018, to develop and introduce a set of values and behaviours shaped and endorsed by the Board, described on [page 66](#).
- **Diversity and Inclusion** The Nomination Committee reviews progress against the Diversity and Inclusion Action Plan on an annual basis, giving it an opportunity to understand progress and challenge where necessary (see [page 114](#)).
- **Love to Listen** We carried out our annual survey of employees (see [page 67](#)) and developed Company-wide and local action plans addressing the key themes from our people's feedback, informed by discussion of the results by the Board.
- **Mental health** The Board received an update on our approach to mental health, and a number of Directors attended one of the Company's mental health awareness courses with a cross-section of employees. This additional insight meant that when a number of positive changes to the Health and Safety Charter and Policy were recommended to the Board during the year, the Board was able to fully support them.
- **Market stalls event** In September, the Board attended a 'market stalls' event at Grafham Water, which gave Directors the opportunity to meet with employees who will be delivering a number of key AMP7 initiatives.
- **Role framework** Following engagement with our employees, we created a new role framework, creating career paths and recognition for technical experts as well as people leaders.
- **New operating model** Working with business leaders and employees and guided by the Board, we developed a new operating model for AMP7 (see [page 55](#)).
- **Remuneration arrangements** When setting remuneration policy, the Remuneration Committee ensures that the remuneration arrangements for the Executive Directors are appropriate when compared with those for other senior executives and the wider workforce (see Directors' Remuneration Report, [pages 116–135](#)).



## Stakeholder

### The environment

As an important custodian of the environment in our region, Anglian Water has a strong interest in seeing the Government's commitment to improve the natural environment for future generations being fulfilled; positive engagement with farmers and the broader agricultural sector is vital in helping us to meet our environmental goals and commitments.

### How we engage

Our Strategic Direction Statement (SDS), first published in 2007, includes the goal to 'work with others to achieve significant improvement in ecological quality across our catchments' and is fully aligned with the Government's own 25-Year Environment Plan. The Board reviewed and approved an updated version of the SDS in November 2017, covering 2020–2045. The Board regularly considers environmental matters such as water quality, water resources, compliance against the Environment Agency's Environmental Performance Assessment and renewable energy.

Anglian Water maintains a strong presence in environmental policy development forums, feeding into government thinking through formal and informal meetings and workshops, and responding to policy consultations. We often take part in these exercises both individually and collectively as members of Water UK, the Aldersgate Group and the Broadway Initiative. Taking part in these exercises is a two-way process, with the results informing Anglian Water's internal approach to environmental policy issues, nature restoration, and the delivery of our long-term plans for water resources and water recycling infrastructure. Anglian Water's Management Board sponsors an internal Policy Advisory Committee that oversees our input into external policy and regulatory exercises.

We also engage with farmers, non-governmental organisations and academic institutions on issues including soil health and catchment management (see [page 49](#)).

### Key areas of engagement in 2019/20

- **Environment Bill and Agriculture Bill** We have been among many voices calling for a stronger legal framework for environmental improvement, to require land managers, utilities, businesses and environmental charities to work together with local councils and relevant public bodies to tackle the climate crisis and restore nature. We will continue to seek to influence these important bills as they continue their passage through Parliament in 2020.
- **Water Resources Management Plan (WRMP)** Our WRMP for 2020–2045 (see [pages 51 and 80](#)) was finalised this year after a detailed process of engagement with customers and our regulators. Our WRMP strategy was presented to the Board as a key building block of our PR19 Plan. We are already beginning to develop our next WRMP, due in 2024, by working in collaboration with Water Resources East, together with other water companies in the region and wider stakeholders.
- **Drainage and Wastewater Management Plan (DWMP)** We launched a consultation in early 2020 on the strategic context for our first DWMP and intend to publish the full draft DWMP for consultation early in 2022 (see [page 51](#)).
- **Climate Change Adaptation Report** The Board undertook a detailed review of Anglian Water's climate change adaptation strategy, meeting with key internal stakeholders to understand how it has informed the development of our third Adaptation Report, issued for consultation in early 2020 (see [page 34](#)).
- **Soil health** (see [page 49](#)).



## Stakeholder

### Regulators

As a regulated business, Anglian Water benefits from open and constructive working relationships with its regulators: Ofwat, the Environment Agency and the Drinking Water Inspectorate (DWI).

### How we engage

At each meeting, the Board receives an update from the Director of Regulation that covers key areas of regulatory activity across the sector, providing the Board with the opportunity to request further information as necessary. Under our governance arrangements (see <https://www.anglianwater.co.uk/siteassets/household/board-matters.pdf>), key regulatory decisions, such as proposed material changes to our Licence, require Board approval. Before being appointed, each Non-Executive Director attends a meeting with Ofwat; this enables Directors to have a clear understanding of the responsibilities of being a director in this regulated sector.

The Board also receives routine reports on our engagement with the Environment Agency and the DWI, including details of material pollution and water quality events. The Board takes an active role in understanding the root cause of any significant pollution incidents or water quality events, together with the lessons learned that may enable the business to avoid a repeat occurrence.

Peter Simpson maintains an active dialogue with Ofwat's CEO, Rachel Fletcher, and with his counterparts at both the Environment Agency and the DWI. Engagement between our regulators (both economic and environmental) and leaders across the business takes place daily. As well as completing the delivery of our AMP6 programme, engagement with our regulators in 2019/20 has focused on PR19 at both strategic and operational levels. As part of routine engagement with Ofwat, we respond to consultations on changes to the regulatory framework and our underpinning Licence.

We also continue to play an active role in the business retail market, shaping code changes and modifications as well as having representation on the Board of MOSL, the market operator of England's non-household water market. We have also actively engaged with Ofwat's future strategy development.

### Key areas of engagement in 2019/20

- **2020–2025 Business Plan (PR19)** See [page 27](#).
- **Environment Agency and Ofwat** Quarterly Directors' meetings are held with the Environment Agency and Ofwat to discuss operational performance for both compliance and Water Resources. The meetings also cover delivery of our strategic investment programme. An annual performance meeting is held to discuss the Company's Environmental Performance Assessment (EPA) for the year.
- **National Infrastructure Commission (NIC)** The NIC published the results of its Future of Economic Regulation review in October 2019. The report agreed with our submission that the approach to economic regulation needs to change to meet the long-term interests of customers and the environment, but the recommendations fell short of the specific improvements we suggested. The NIC also published in May 2020 the final report from its Resilience Study commissioned by the Chancellor. During 2019/20 we actively engaged in these two reviews.
- **DWI** The Chief Inspector of the DWI met with Directors. This gave the Board the opportunity to understand, in greater detail, the role of the DWI as a regulator and the Company's achievements in the area of water quality during AMP6, as well as providing an opportunity for the Board to interrogate water quality plans for AMP7.





## Stakeholder

### National and local government

Anglian Water has strong interests in the legislative agenda in Parliament, and in building relationships with the 75 MPs that represent constituencies within our region. Engagement with local government, including local authorities, and city, town and parish councils, is critical to the delivery of our strategy and we continually consult to align our priorities and plans.

### How we engage

Our approach to engaging with national and local government stakeholders is to share our plans and priorities and seek to understand theirs to inform our business decision making. Peter Simpson leads our political engagement programme on behalf of the Board, supported by members of the Management Board and the Public Affairs and Regional Engagement teams. Peter regularly meets with constituency MPs regarding our strategic priorities and any operational issues in their area, and engages with government ministers and shadow ministers regarding relevant policy matters. Anglian Water sponsors a number of All-Party Parliamentary Groups, think tanks and policy development forums, including the Westminster Sustainable Business Forum, the Aldersgate Group and the Broadway Initiative. In 2019/20 we took part in 29 policy consultations and parliamentary select committee inquiries on issues such as future domestic land use and environmental policy, water resources management, problem plastics, green finance and skills. We also engage extensively at local government level on both a strategic and an operational basis, sharing and consulting on future plans as well as engaging on current issues.

### Key areas of engagement in 2019/20

- **Purpose and Articles of Association** See [page 27](#).
- **Nationalisation** The future of the water industry has been a topic of political debate in recent years. Working with other water companies, we commissioned independent reports that reviewed the evidence base on costs and Company performance in the 30 years since the water sector was privatised. These were used to highlight how a return to public ownership would not be in customers' interests and would cost the taxpayer up to £90 billion. The Board was kept fully abreast of all major developments and challenged where necessary.
- **Brexit** A key focus of the year was planning for a potential 'no-deal' Brexit. With the full engagement of the Board, Anglian Water worked with companies across the sector as well as with regulators and government to ensure that there was a coordinated approach to chemical supplies across the industry, for example.

### Shareholders

Our shareholders have made a long-term commitment to our organisation and have a shared interest in and responsibility for its success. It is therefore vital that we engage our shareholders in strategic planning and share progress and results with them.

### How we engage

Our shareholders are represented on the AWS Board by Non-Executive Directors (see [page 100](#)). Our shareholders are also represented on the board of our ultimate holding company, Anglian Water Group Limited (AWG). As the Chairman of the AWS Board also chairs the AWG Board, we are able to ensure that there is a direct route through which shareholders can raise any concerns or comments in relation to the performance of the Company. Both Peter Simpson and Steve Buck are also AWG Directors and meet with shareholder representatives on a regular basis. In addition, we engage with shareholders through written reports, including full year and half-year reports to the AWG Board, the Annual Integrated Report and the annual Green Bond Report, and by publishing interim and preliminary Company results at half year and year end. In September 2019 we held an event at Grafham Water to which AWG Directors were invited to hear business updates and learn about different areas of the business.

### Key areas of engagement in 2019/20

Shareholders were kept informed, and their views sought, on all key areas covered elsewhere in this section 172 statement through their representation on the AWS Board and through reports and results announcements.



## Stakeholder

### Investors, banks and ratings agencies

The funding advanced by investors and banks is crucial to the delivery of our investment programme, which directly benefits our communities and our environment. Engagement is vital to understand their requirements, demonstrate our long-term sustainable vision and help them understand what makes Anglian Water a sound investment.

### Supply chain

Our supply chain partners play a crucial role in the delivery of our infrastructure and services. Continual engagement ensures we support our partners and the health, safety and wellbeing of their people, and operate the business as efficiently as we can.

### How we engage

We hold investor events at least twice a year to coincide with preliminary and interim Company results, and periodically hold additional events and site visits for investors. In addition, Peter Simpson, Steve Buck and the Company's Treasurer hold regular face-to-face meetings and telephone conferences with banks and investors. We also engage with banks and investors through written reports, including the Annual Integrated Report, the annual Green Bond Report and the semi-annual investor report, and by publishing interim and preliminary Company results at half year and year end.

### Key areas of engagement in 2019/20

As set out in other sections, Board members discuss key areas of risk such as PR19 and Covid-19 with investors and banks to facilitate the continued funding of the business. Engagement with banks and investors also informs our approach to sustainable financing. Anglian Water is committed to financing capital investment sustainably, while for their part, banks and investors have a clear appetite to invest in purpose-led, sustainable businesses such as ours.

### How we engage

We work closely with our suppliers, not only to provide industry-leading services and value but to achieve joint goals such as reducing our carbon footprint. Our most important supply chain relationships are with our alliance partners, with whom we work to deliver all our asset programmes and our information services. We hold quarterly Principals Group meetings with alliance leaders and regular Board meetings with each of our operational alliances. Our Delivery Leadership Team meets regularly and ensures we have a pan-alliance approach to solving problems and managing risks and opportunities. The partners within each alliance, including Anglian Water, work as a team with a shared risk, shared gain model. Each alliance board has full autonomy in deciding the best approach to delivering its programmes.

For the broader supply chain, our sourcing and framework management processes ensure fairness and openness in our sourcing and contract management activities as well as maintaining compliance with the Utilities Contracts Regulations. Across AMP7 we will continue to work with suppliers to improve efficiency with innovative approaches to buying, such as virtual procurement cards and Amazon Business, being trialled over the summer.

Beyond operational and strategic engagement, we also connect with members of our supply chain through our Water Innovation Network, which drives the delivery of new ideas, and through events such as Innovate East (see pages 54–55). The health, safety and wellbeing of members of our supply chain is a key priority and we organise regular LIFE events for alliance partners. We also hold an annual Supplier Awards to celebrate successes and share best practices.

### Key areas of engagement in 2019/20

- **Strategic Pipeline Alliance** During the year, the Board met with key internal stakeholders tasked with delivering the Strategic Pipeline Alliance; this gave the Board the opportunity to develop a deeper understanding of the complexities and the opportunities attached to the project as well as its link to the Price Review process.
- **Covid-19** See page 11. Our Head of Supply Chain also shared Anglian Water's responsible approach to our supply chain on Covid-19 in a BITC webinar (May 2020).
- **Working together** Our collaborative annual Water Innovation Network engagement event WaterConnect, held in February 2020, was attended by more than 100 representatives of supply chain partners, SMEs and start-ups. We shared our priorities and goals for the next five years and heard from others with solutions and challenges.
- **Supply chain sustainability** We engaged with the Supply Chain Sustainability School to benchmark ourselves against others on supply chain issues including business ethics and modern slavery. We are also members of the Energy & Utility Procurement Skills Accord and recently scored full marks in their assessment of our progress.
- **Plastic waste** We are engaging on an ongoing basis via the Plastics Steering Group to support the delivery of Anglian Water's commitment to tackling plastic waste.



# Principal decisions made by the Anglian Water Services Board in 2019/20

## Board response and engagement with Covid-19

The Board regularly reviews the top-tier risk register, and, as such, has long had visibility and input into Anglian Water's planned response to the outbreak of a pandemic. Since the start of the pandemic, Board discussions have focused on the potential short- and long-term impact of Covid-19, both for Anglian Water and a wide range of stakeholders, including customers, employees, suppliers, regulators and the Government. In light of the economic uncertainty surrounding Covid-19, in late March 2020 the Board decided to draw down on the company's committed bank facilities. This £600 million drawdown is expected to provide an adequate buffer to ensure payments can be met as they fall due. In reaching this decision the Board considered that continued financial resilience was crucial to the ongoing success of the Company and all its different stakeholders. The Board also supported the decision of the Company's ultimate owners to establish and fund the Anglian Water Positive Difference Fund which has been created to support local community organisations.

## Business Plan for 2020–2025

The Board has been engaged throughout the Price Review 2019 process, including detailed review of the Draft Determination issued in July 2019 and the Final Determination issued by Ofwat in December 2019. When approving the Company's response to the Draft Determination, the Board took account of renewed customer engagement, which demonstrated that two-thirds of surveyed customers favoured investment that enabled growth in the region and delivered resilience in the long term instead of a larger bill reduction. During its deliberations as to whether or not to accept the Final Determination, the Board considered its impact on key stakeholder groups, including customers, the environment, shareholders and investors. On considering the £744 million shortfall between Anglian Water's proposed Business Plan and the investment package offered by Ofwat, the Directors felt that the Final Determination was incompatible with the long-term needs of the environment and customers, putting the delivery of Anglian Water's stated Purpose at risk. They also considered the impact on investors of Ofwat's weighted average cost of capital (WACC), and concluded that the WACC was so low that the business was not financeable. The Board therefore decided unanimously to request that Ofwat refer the Determination to the Competition and Markets Authority (CMA) for a redetermination so that the CMA can consider whether the right balance between investment and affordability has been achieved.

## Adoption of new Articles of Association

In July 2019 the Board recommended to its immediate and ultimate shareholders a fundamental change to Anglian Water's Articles of Association (see [pages 12–13](#)). Before doing so, the members of the Board considered feedback from a wide range of stakeholders, including customers, employees, political and regulatory stakeholders, shareholders and investors. Feedback from customers highlighted that they expect us to go above and beyond the provision of fresh, clean water and its safe recycling, to deliver positive benefits to communities and the environment. While this sense of public interest had long driven Anglian Water's approach, the Board decided to incorporate it formally into the Company's Articles of Association, to ensure that all future directors would be bound by the same goals. The Directors considered the impact of this decision on investors, including the risk that some potential investors may find the changes a deterrent to investment. Following discussions with investors and shareholders, they concluded that the change would support the Company in continuing to attract investors who share its values. The Board has also discussed and approved the formal adoption of six capitals thinking into Anglian Water's decision-making framework to support consideration of the needs and priorities of a wide range of stakeholders.

## Employee engagement

The Board regularly engages with employees in a number of different ways, as well considering employee matters at its meetings. In line with the Anglian Water Services Corporate Governance Code 2019, the Board appointed Niall Mills as the Non-Executive Director responsible for engagement with the workforce, during this pilot year. To understand how this new role could work and be developed, Niall started by looking in depth at the 2019 Love to Listen employee survey and was briefed in detail on its methodology and specific outputs. A presentation was then made to the entire Board on the survey, the follow-up actions and the key performance indicators. The Board then spent a day with individuals across Anglian Water who presented on, and demonstrated, their latest projects and initiatives.

Niall Mills was also briefed on the various initiatives involving representatives from the Company – the Future Leaders Board, Company Collective and Open House. Unfortunately, a scheduled meeting with representatives from these bodies had to be postponed due to Covid-19. A virtual session will now be planned for later in the year.



# Aligning our goals with the United Nations Sustainable Development Goals

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



“ ”

“We made history in 2017 when we became the first ever public utility to issue a Sterling Green Bond, and we are very proud that all our capital activity meets the strict criteria set for Green Bond investment. It’s important to be able to demonstrate that our activities not only contribute to positive outcomes in our region but also play a small part in delivering the international objectives of the UN Sustainable Development Goals.”

**Steve Buck**  
Chief Financial Officer



Relevance of SDG to our business (proportion of targets that we can directly contribute to)



Example target of material interest (we have mapped our engagement against the 169 targets under the 17 SDGs)

3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	6.5 By 2030, implement integrated water resources management at all levels	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities	12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature	13.2 Integrate climate change measures into national policies, strategies and planning	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
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Underlying potential for negative impact

Our operations can cause pollution if we get things wrong	We know we have a future skills gap	Uncoordinated water management can lead to deficits and impacts on the environment	We build and operate a large network of assets and infrastructure that use energy and resources	Without strategic planning the lack of water can be a blocker to growth	We manage large areas of open space to deliver our service	Without knowledge our customers are unable to act sustainably	We are one of the biggest energy users in the East of England and operate in a region that is particularly vulnerable to climate change	Our operations can cause pollution if we get things wrong	Our operations have a large footprint within the natural environment
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Examples of current activities that positively support the target

Pollution and Keep It Clear, pages 48–49 and 58–59	Education and employment, page 71	Supply meets demand, pages 50–51	Innovation, page 55	Planning, innovation and sustainable drainage, pages 51, 55 and 59	Water parks, page 71	Capital carbon, pages 32–35, 38–39, 44–45, Water efficiency, pages 51 and 63	Carbon neutrality, pages 38–39, Climate change adaptation, pages 34–35	Catchment and coastal, pages 48–49	Biodiversity, page 49
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How the SDG target aligns to our outcomes

Safe, clean water	Positive impact on communities	Supply meets demand	A smaller footprint	Investing for tomorrow	Positive impact on communities	Positive impact on communities	Investing for tomorrow	Flourishing environment	Flourishing environment
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# Financing our business

Anglian Water Services Limited is a private limited company

## Ownership and company structure

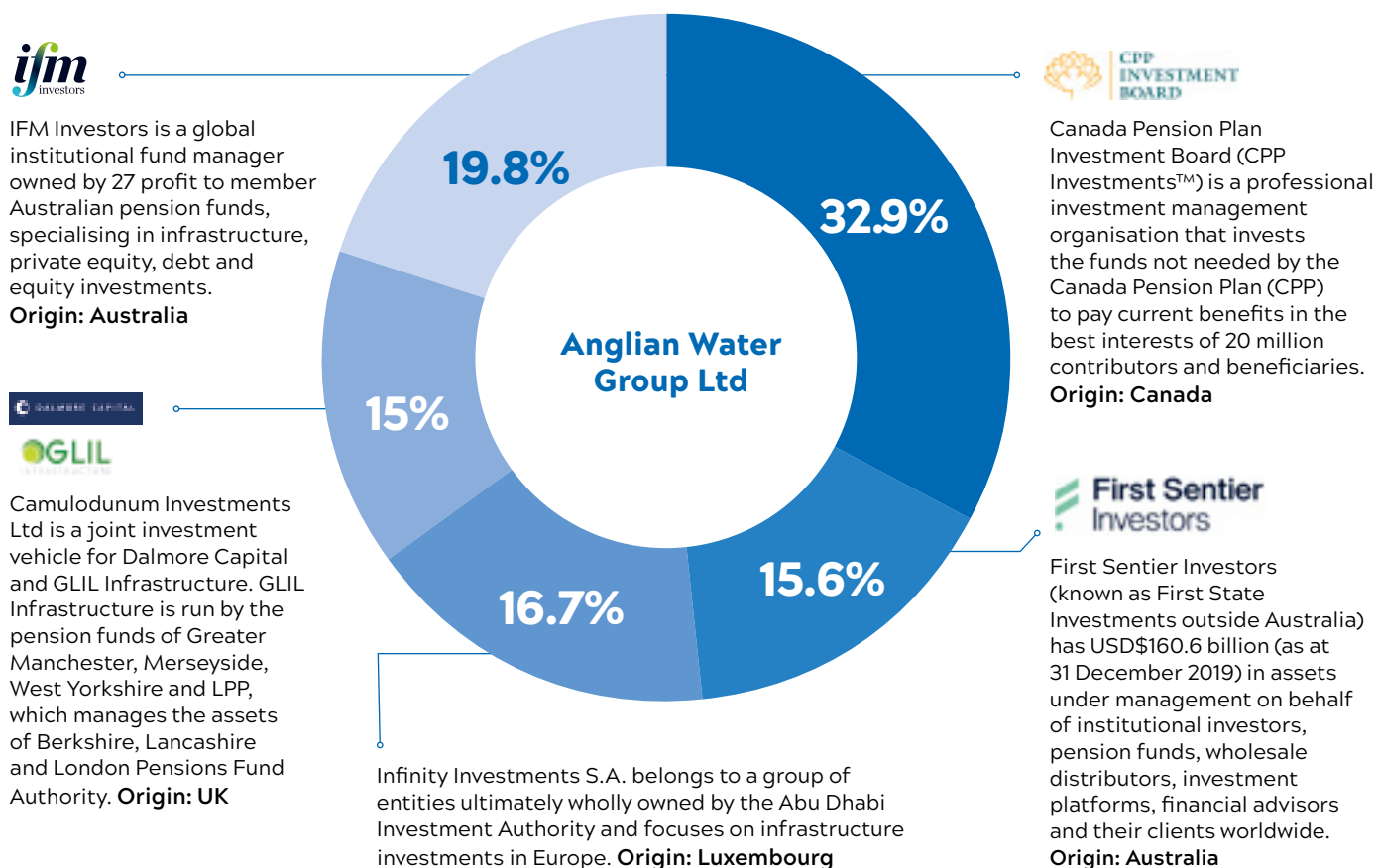
Anglian Water Services Limited (AWS) is the principal subsidiary of Anglian Water Group Limited (AWG). The AWG Board consists of six investor representatives, the Chief Executive Officer, the Chief Financial Officer and a Non-Executive Chairman.

## Our corp structure

Details of the consortium of investors that owns AWG, along with details of beneficial ownership of AWG by investor type, are shown below. The complete holding company structure is presented in the diagram opposite and the principal companies in the structure are explained below.

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

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

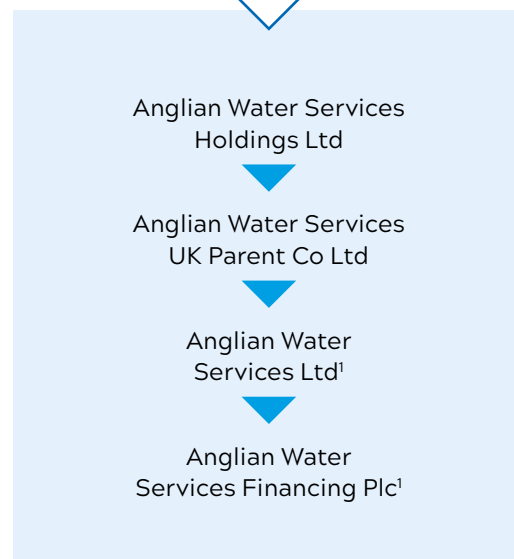
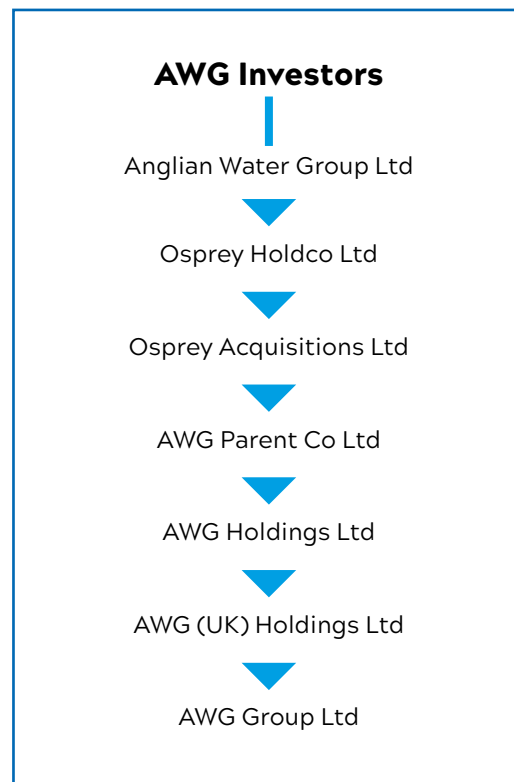




Anglian Water Services Holdings Limited was put in place in 2002, when Anglian Water’s covenanted and ring-fenced debt structure was established. This group of companies (referred to as the Anglian Water Services Financing Group, or AWSFG) protects customers and our bond holders from risk associated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

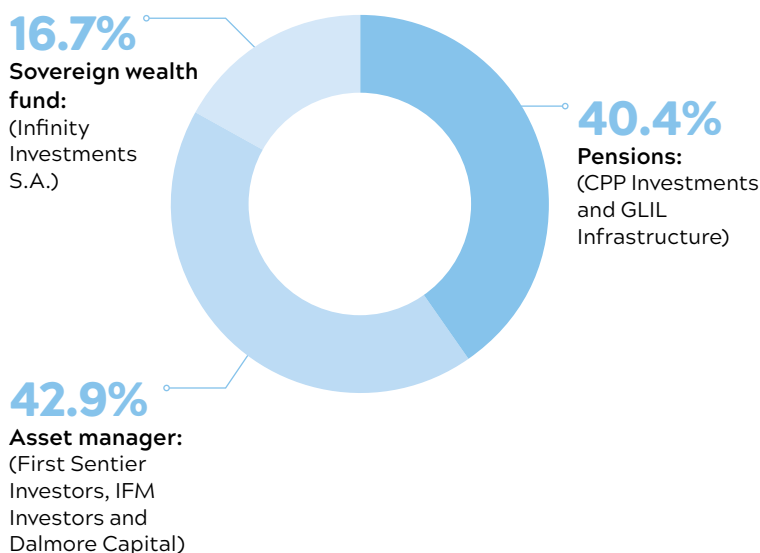
Anglian Water Services UK Parent Co Limited is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated Group companies. All companies within the AWSFG are UK-registered and tax resident companies.

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



- Anglian Water Services Financing Group (AWSFG)
- Direct subsidiary

<sup>1</sup> Collectively known as the Anglian Water Services Group, for which consolidated accounts are prepared.





# Financing our business – sustainable finance

Big businesses like ours have a huge role to play in securing a sustainable future for the communities and the environment in which we operate. We've made our own commitment crystal clear through our Purpose and in the changes we've made to our Articles of Association (see page 12). That commitment also extends to the way we finance the capital investments we make, directly benefiting our customers and our region because of the increased investor universe green finance opens up to us.

Sustainable finance – that is, finance which integrates environmental, social and governance (ESG) criteria into investment decisions – has never been higher on the corporate agenda than it is today. Forward-thinking investors recognise that environmental and social responsibility is no longer an add-on to decision making, but a fundamental element in addressing climate change and making the right choices to safeguard both the planet and their investment. As Larry Fink, chairman of BlackRock, the world's biggest money management firm, wrote to CEOs in his annual letter earlier this year, "While government must lead the way in this transition, companies and investors also have a meaningful role to play."

This approach to finance is not new to Anglian Water. We led the way in this emerging field when we became the first European utility company to launch a Sterling Green Bond in 2017, and with six Green Bonds now in operation, green finance has become 'business as usual' for us.

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

We are very proud that all our capital activity meets the strict environmental criteria set for Green Bond investment. All of it qualifies under our AMP6 (2015–2020) Governance Framework, which follows the ICMA Green Bond Principles. One main impact indicator is our reduction in carbon, which is subject to BSI (British Standards Institute) PAS 2080 verification. This is a standard sponsored by the Green Construction Board to encourage a consistent approach to the management of carbon by everyone involved in infrastructure. It sets out principles and components to manage whole-life carbon emissions and deliver reduced carbon over the whole value chain.







## Generating power from waste

### Cotton Valley

One of the ways we generate renewable energy is by turning waste into biogas. So when we needed to upgrade capacity at our Sludge Treatment Centre at Cotton Valley in Milton Keynes to meet the needs of the town's growing population, we took the opportunity to ramp up the centre's biogas production. We constructed an additional digester – a large tank that uses the process of fermentation to break down sewage to produce biogas – along with an additional cooling tower and heat exchanger.

The site can now process 25,000 tonnes of dry solids every year, delivering 0.9MWh of renewable energy per tonne. This is more than enough to power the water recycling centre next door – with excess being exported to the local grid.

The site is also eligible for renewable incentives, which, when combined with the power savings and income from the exported power, are worth over £2 million. Self-generation of renewable energy is also one of the most significant ways in which we're reducing our carbon emissions, helping us in our progress towards net zero carbon by 2030.

**Capital carbon saving:  
114 tonnes of CO<sub>2</sub>e (21%).**

Our activity meets the strict environmental standards set out in the ICMA Green Bond principles: “sustainable water and wastewater management including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation”. And notwithstanding Brexit, we also stand ready to link in with the standards of the EU's new taxonomy for sustainable investments when it is introduced. The aim of the taxonomy, or classification system, is to create a common language for investors to use when they invest in projects and economic activities that have a substantial positive impact on the climate and the environment.

Our first £250-million, eight-year bond will mature in August 2025 with a return to investors of 1.625 per cent. Since the successful launch of that debt transaction, we have raised a further £627 million of Green Bonds to investors in the UK and the United States in accordance with the ICMA Green Bond Principles.

The investments financed through this debt have avoided 160,736 tonnes of carbon, as measured in 2019. They include innovative water abstraction projects, drought and flood resilience schemes, and progressive water recycling and water resource management projects. Find out more in our 2019 Green Bond Impact Report (available via [www.anglianwater.co.uk/investor-information](http://www.anglianwater.co.uk/investor-information)).

As we head into AMP7, we will need to raise a very significant amount of capital to fund vital projects across our region. We propose to raise the vast majority of this capital as sustainable finance. We also use liquidity bank facilities that incentivise the delivery of agreed environmental and social goals.

Our investors recognise that running our business sustainably, with long-term resilience in mind, isn't just the right thing to do, but makes good business sense too.





# Climate-related financial disclosures

The management of climate change is embedded into everything we do. In 2017 we signed up as a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). Since then we have published climate-related information in line with its recommendations. For the first time we have also made a disclosure through CDP (formerly Carbon Disclosure Project). This follows CDP modifying the structure of its climate change questionnaire to align with TCFD (CDP-TCFD technical note).

In addition to our CDP disclosure, we have published greenhouse gas (GHG) reports since 2008 and have reported under each round of the UK's climate change adaptation reporting power.

The Adaptation Report that we will submit for the third round was issued for consultation in March 2020. This is the first time we have issued a report for consultation. We were the first company to issue our report, doing so to ensure it was in time to inform the production of the third climate change risk assessment by the UK Government. This report, and the risks and actions contained within it, was drafted with input from stakeholders across our business as well as specialists in adaptation from consultants WSP. The report includes an assessment of our physical and transition climate-related risks, a description of how we are managing these risks and metrics to track our performance.

The section below summarises how climate change is integrated across the four elements defined by TCFD. This summary should be read in conjunction with the detail in our Adaptation Report and CDP disclosure – both of which are publicly available. References to the relevant CDP questions have been provided below and the requirements of the new Streamlined Energy and Carbon Reporting (SECR) regulations have been included within the metrics and targets section.

## Governance C1.1b, C1.2, C1.2a

Our Board has effective oversight of climate-related risks and opportunities. Climate-related risks are included within Anglian Water's top-tier risk register (see pages 74 and 81). This is reviewed regularly in detail by the Board. Short-, medium- and long-term climate-related targets have been agreed by the Board. Members of the Management Board chair the groups responsible for reducing carbon emissions and adapting to climate change and are financially incentivised on progress towards achieving the targets.

## Strategy C2.3, C2.3a, C2.4, C2.4a, C3.1, C3.1a, C3.1b, C3.1d, C3.1e, C3.1f

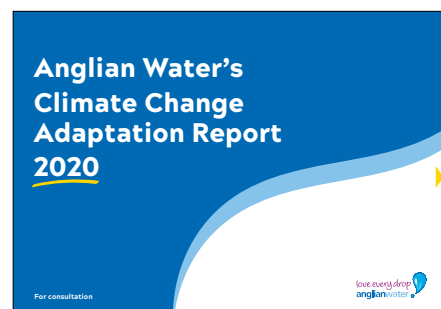
Our long-term strategy is described in our publicly available Strategic Direction Statement, updated in 2017. It includes a description of our climate-related challenges, actions and goals. We have submitted two Adaptation Reports to the Government and will submit our third following consultation. Our most significant physical risks are droughts and flooding. These are being effectively mitigated in line with our long-term plans, which consider more than one climate change scenario. Our most recent Adaptation Report also describes how we are managing transition risks. We are taking a leading role in working with other water companies on a route map to achieve net zero carbon for the sector by 2030. Our Chief Executive Officer is the Co-Chair of the UK's Corporate Leaders Group and is helping to lead businesses' response to the climate emergency and support of the 2020 UN Climate Change Conference, or COP26, due to take place in November 2021.

## Risk management C2.1, C2.1a, C2.2, C2.2a

The processes for identifying, assessing and managing climate-related risks are fully integrated with our strategy and risk management processes. Climate-related risks are identified and assessed during the preparation of our Adaptation Reports. Risks are also identified and managed through the preparation of long-term plans and the delivery of individual investments. The assessment and management of climate-related risks is consistent with the approach used to manage risk throughout the business.

## Metrics and targets C4.1, C4.1a, C4.2, C4.2a, C4.2b, C6.1, C6.3, C6.5, C9.1

The table opposite meets the requirements of the new Streamlined Energy and Carbon Reporting (SECR) regulations.





	Units	2019–2020	Inclusions
Energy consumption used to calculate emissions	kWh	1,116,193,544	Electricity, gas, liquid fuels, owned transport, and personal and hire cars for business use
SCOPE 1 – Use of fossil fuels	kg CO <sub>2</sub> e	12,535,981	Emissions from heating fuels for our offices and treatment processes and refrigerant gases
SCOPE 1 – Process and fugitive emissions	kg CO <sub>2</sub> e	70,691,157	Release of methane and nitrous oxides from treatment processes
SCOPE 1 – Owned and leased transport	kg CO <sub>2</sub> e	22,119,099	
<b>SCOPE 1 – Total</b>	kg CO <sub>2</sub> e	<b>105,346,236</b>	
<b>SCOPE 2 – Total</b>	kg CO <sub>2</sub> e	<b>163,485,177</b>	Purchased electricity (generation)
SCOPE 3 – Business travel	kg CO <sub>2</sub> e	973,458	
SCOPE 3 – Outsourced activities	kg CO <sub>2</sub> e	14,891,058	Outsourced transport
SCOPE 3 – Purchased electricity	kg CO <sub>2</sub> e	13,879,610	Purchased electricity (transmission and distribution)
<b>SCOPE 3 – Total significant</b>	kg CO <sub>2</sub> e	<b>29,744,125</b>	We have not included commuting, capital carbon and emissions from use of water in customers' homes
<b>TOTAL ANNUAL GROSS EMISSIONS</b>	kg CO <sub>2</sub> e	<b>298,575,539</b>	
Exported renewables	kg CO <sub>2</sub> e	-8,309,949	
Green tariff	kg CO <sub>2</sub> e	0	
<b>TOTAL ANNUAL NET EMISSIONS</b>	kg CO <sub>2</sub> e	<b>290,265,590</b>	
INTENSITY RATIO – Water treated	kg CO <sub>2</sub> e per Ml	223.87	
INTENSITY RATIO – Recycled water	kg CO <sub>2</sub> e per Ml	219.73	Flow to full treatment
INTENSITY RATIO – Recycled water	kg CO <sub>2</sub> e per Ml	431.83	Water distribution input

#### Methodology

The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control. We have followed the 2019 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019 to calculate the above disclosures. Where relevant we have also aligned with industry best practice for emissions measurement and reporting. This approach has been verified, since 2011, by CEMARS as being measured, managed and reduced in accordance with ISO 14064.

#### Energy efficiency action

In the reporting year we fulfilled our obligation to notify the Environment Agency that we had complied with our Energy Saving Opportunity Scheme (ESOS) obligations. In doing so we demonstrated the actions we are taking to identify and deliver improvements in energy efficiency. For example, in 2019/20 we invested more than £3 million in energy-saving projects, saving more than 8,000,000 kilowatt hours (kWhs). Within the year we also designed energy and carbon out of our construction projects, increased our generation of renewable energy and increased our use of electric and hybrid vehicles. A description of our activities is included in 'A smaller footprint', see [pages 46–47](#).



# Non-financial information statement

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. We integrate this information throughout this report and so the table below is designed

to help you find key elements on non-financial matters. Links to policies, standards and relevant documents can be found at <https://www.anglianwater.co.uk/about-us/our-purpose/environmental-social-and-corporate-governance/>.

Reporting requirement	Policies, standards and relevant documents that govern our approach	Current activities and risk management
<p><b>Environmental matters</b></p> <p>Our commitment to protecting and enhancing our environment is enshrined in the constitution of Anglian Water, which commits directors to conduct its business and operations for the benefit of members as a whole while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society</p>	<p>Anglian Water Articles of Association</p> <p>Love Every Drop outcomes</p> <p>Anglian Water Strategic Direction Statement</p> <p>Anglian Water Water Resources Management Plan</p> <p>Anglian Water Drought Plan 2019</p> <p>Anglian Water Water Recycling Long-Term Plan</p> <p>Draft Anglian Water Climate Change Adaptation Report</p>	<p>Chairman's welcome, <a href="#">page 7</a></p> <p>Chief Executive's statement, <a href="#">pages 8–9</a></p> <p>Enshrining our Purpose, <a href="#">pages 12–13</a></p> <p>Our Social Contract, <a href="#">page 14</a></p> <p>Six capitals thinking, <a href="#">page 15</a></p> <p>How we're addressing challenges and opportunities, <a href="#">pages 16–17</a></p> <p>Our stakeholders and section 172 statement, <a href="#">pages 20–27</a></p> <p>Aligning our goals with the United Nations Sustainable Development Goals, <a href="#">pages 28–29</a></p> <p>Climate-related financial disclosures, <a href="#">pages 34–35</a></p> <p>Towards net zero carbon, <a href="#">pages 38–39</a></p> <p>Securing supplies sustainably, <a href="#">pages 40–41</a></p> <p>Delivering our outcomes: A smaller footprint, <a href="#">pages 46–47</a></p> <p>Delivering our outcomes: Flourishing environment, <a href="#">pages 48–49</a></p> <p>Resilience, risk management and business viability statement, <a href="#">pages 72–87</a></p>
<p><b>Employees</b></p> <p>Our approach to our employees is guided by the values that drive our continued progress: Together, we build trust; We do the right thing; We are always exploring</p>	<p>Values framework</p> <p>Making the right choices – code of behaviour</p> <p>Diversity and inclusion plan</p> <p>Health and Safety policy</p> <p>Dignity at work code of conduct</p> <p>Relationships at work policy</p> <p>Gender pay gap report</p> <p>Whistleblowing policy</p>	<p>Chairman's welcome, <a href="#">page 7</a></p> <p>Chief Executive's statement, <a href="#">pages 8–9</a></p> <p>Our stakeholders and section 172 statement, <a href="#">pages 20–27</a></p> <p>Delivering our outcomes: Our people: healthier, happier, safer, <a href="#">pages 66–69</a></p> <p>Corporate Governance Report, <a href="#">pages 101–109</a></p> <p>Audit Committee Report, <a href="#">pages 110–113</a></p> <p>Directors' Remuneration Report, <a href="#">pages 116–135</a></p>
<p><b>Human rights</b></p> <p>Our policies and processes are underpinned by our values; in particular, We do the right thing</p>	<p>Making the right choices – code of behaviour</p> <p>Dignity at work code of conduct</p> <p>Data protection policy</p> <p>Information retention policy</p> <p>Privacy notice</p> <p>Slavery and Human Trafficking Statement</p>	<p>Delivering our outcomes: Our people: healthier, happier, safer, <a href="#">pages 66–69</a></p> <p>Nomination Committee Report, <a href="#">pages 114–115</a></p>



Reporting requirement	Policies, standards and relevant documents that govern our approach	Current activities and risk management
<p><b>Social matters</b></p> <p>Our commitment to serving our customers and our communities is enshrined in the constitution of Anglian Water through our stated Purpose: which commits directors to conduct its business and operations for the benefit of members as a whole while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society</p>	<p>Anglian Water Articles of Association</p> <p>Public Interest Commitment</p> <p>Social Contract</p> <p>Employee volunteering guidelines – Love to Help</p> <p>Anglian Water Strategic Direction Statement</p>	<p>Chairman’s welcome, <a href="#">page 7</a></p> <p>Chief Executive’s statement, <a href="#">pages 8–9</a></p> <p>Enshrining our Purpose, <a href="#">pages 12–13</a></p> <p>Our Social Contract, <a href="#">page 14</a></p> <p>Six capitals thinking, <a href="#">page 15</a></p> <p>How we’re addressing challenges and opportunities, <a href="#">pages 16–17</a></p> <p>Aligning our goals with the United Nations Sustainable Development Goals, <a href="#">pages 28–29</a></p> <p>Delivering our outcomes: Supply meets demand, <a href="#">pages 50–51</a></p> <p>Delivering our outcomes: Resilient business, <a href="#">pages 52–53</a></p> <p>Delivering our outcomes: Delighted customers, <a href="#">pages 58–59</a></p> <p>Delivering our outcomes: Positive impact on communities, <a href="#">pages 70–71</a></p>
<p><b>Anti-corruption and bribery</b></p> <p>Our policies and processes are underpinned by our values; in particular: We do the right thing</p>	<p>Making the right choices – code of behaviour</p> <p>Competition law compliance policy</p> <p>Anti-bribery policy</p> <p>Corporate hospitality policy</p> <p>Whistleblowing policy</p>	<p>Delivering our outcomes: Our people: healthier, happier, safer, <a href="#">pages 66–69</a></p> <p>Audit Committee Report, <a href="#">pages 110–113</a></p>
<p><b>Description of principal risks and impact of business activity</b></p>	<p>How we’re addressing opportunities and challenges, <a href="#">pages 16–17</a></p>	<p>Risk management, <a href="#">pages 72–76</a></p> <p>Principal risks, <a href="#">pages 77–87</a></p> <p>Business long-term viability statement, <a href="#">pages 88–91</a></p>
<p><b>Description of the business model</b></p>	<p>Our business model, <a href="#">pages 18–19</a></p>	<p>Board statement of Company direction and performance, Annual Performance Report (available at <a href="http://www.anglianwater.co.uk/about-us/our-reports">www.anglianwater.co.uk/about-us/our-reports</a>)</p>
<p><b>Non-financial key performance indicators</b></p>	<p>Non-financial performance measured against 32 commitments agreed with Ofwat</p> <p>Health and safety measures and targets</p>	<p>ODI performance table, <a href="#">pages 44–45</a></p> <p>Delivering our outcomes: Our people: healthier, happier, safer, <a href="#">pages 66–69</a></p>

A copy of our code of conduct (‘Making the right choices’) together with our Whistleblowing policy, our Anti-bribery policy and our current Slavery and Human Trafficking Statement can be found on our website at <https://www.anglianwater.co.uk/about-us/who-we-are/our-suppliers/>. Our customer privacy notice can be found at <https://www.anglianwater.co.uk/about-us/legal/privacy-notice/>.





# Towards net zero



Anglian Water's innovative low-carbon treatment wetland at Ingoldisthorpe, Norfolk

It was only last year that we took the bold step, with our fellow water companies, of committing to become a net zero carbon business by 2030. However, our journey to net zero carbon really began in 2010. This was when we set two ambitious goals: one for operational carbon and the other for capital carbon. Our capital carbon goal was to halve the carbon embodied within our construction projects by 2015. At the time, measuring and managing capital carbon, let alone setting such a stretching goal for reduction, was unheard of. With visionary leadership and a supply chain that lined up behind the targets, we were able to beat both targets.

In delivering against our carbon targets, we demonstrated the strong link between carbon and cost, achieving financial efficiencies in the investment programme of more than 20 per cent. In collaboration with our integrated supply chain, we have created a strong 'reduce carbon, reduce cost' culture. This approach has delivered innovation and financial efficiency through the reuse of



Our new solar array at Jaywick

assets, low-carbon materials, off-site build, low-carbon standard products and advanced 3D design tools.

To achieve this level of success we have made fundamental changes to the way we run our organisation, aspiring, wherever we can, to lead the way on sustainable business practices. Working with government and other leading businesses, we developed the world's first standard for managing carbon in infrastructure (PAS 2080), which is now being used nationally and internationally.

This year we have raised the bar again and are reporting a capital carbon reduction of 61 per cent – beating the updated target of 60 per cent that we set ourselves in 2015. On operational carbon we've achieved more than we hoped possible. This year we are reporting a reduction in our emissions of 34 per cent against a 2015 baseline.

It is this track record and recognition of the climate emergency that has given us the confidence to take the bold step, with our fellow water companies, of committing to become a net zero carbon business by 2030.

We know that our integrated supply chain has been – and will continue to be – fundamental to our success. This year we carried out a series of carbon and climate workshops in collaboration with members of our supply chain. In January we ran two workshops with colleagues in our @one alliance to celebrate the progress being made towards our short-term goals, and to set ourselves up for success against our longer-term goals. These sessions allowed us to identify and reinforce good practice as well as challenge ourselves on the things we needed to do differently.

Our CEO Peter Simpson is one of the co-sponsors of the water industry's hugely ambitious net zero carbon programme of work, together with Northumbrian Water CEO Heidi Mottram and Yorkshire Water CEO Liz Barber. Progress is already being made, with work under way to catalogue the industry's emissions, to explore carbon sequestration and to replace carbon-intensive energy sources with renewables, such as through our own solar programme (see page 47).

In March this year the water sector's first net zero carbon event brought together more than 100 water company, regulator and supply chain staff in central London. At the event, which was chaired by Water UK Chief Executive Christine McGourty, the three company chief executives sponsoring the 2030 commitment gave keynote speeches,

and two international consultancies – Ricardo and Mott MacDonald – set out options for how it can be achieved. The output of the roundtables will be integrated into a full road map to net zero which will be published later this year.

Achieving net zero together will require innovation and the full support of everyone in the value chain, including our employees, our customers, our supply chain, partners and policymakers. We've already seen what is possible when everyone lines up behind a bold vision and ambitious targets. We're confident that together we can achieve the net zero carbon 2030 commitment.







# Securing supplies sustainably



Anglian Water's £36 million scheme at Heigham has safeguarded the ecosystem of the River Wensum

The Anglian Water region is home to some of England's rare and precious chalk streams, a hugely valuable environmental asset, rich in aquatic plants and wildlife, which must be protected for the future. Our biggest single investment of AMP6 will do just that, safeguarding the delicate ecosystem of the River Wensum at Costessey Pits, outside Norwich, for many years to come.

The ambitious £36 million scheme, carried out over three years, has allowed the abstraction point for the rapidly growing city of Norwich to be moved away from the delicate upstream section of this important chalk river, a Site of Special Scientific Interest (SSSI), to our water treatment works at Heigham. Here, water flows are higher as the River Tud joins the Wensum upstream. This means the water needed can be taken from the river without risk of harm to the precious upstream ecosystem at times of low flow.

Before the scheme was carried out, abstraction via the River Wensum into our Costessey Pits provided a natural storage system for water, allowing solids and sediment to settle out before the raw water was pumped to the Heigham works for treatment.

**“It's great to see Anglian Water investing and innovating to protect the environment and serve our growing population, safeguarding the future of the region for generations to come.”**

**Chloe Smith, MP for Norwich North**



Europe's largest membrane ultrafiltration system removes sediment

The impact and risks of climate change on river flows and groundwater levels meant this approach was no longer sustainable, and a new solution was needed to secure long-term water supplies to the people of Norwich, one of the fastest-growing cities in the UK.

It was clear we needed to do something ambitious. We decided we had to find a way to move the abstraction point away from Costessey to Heigham itself. Previously, the water at this point contained too much sediment to be treated without settling first. Working with our @One alliance partners, we came up with a scheme that would solve this problem while minimising the amount of new, carbon-hungry infrastructure needed.

Funded sustainably through our Green Bonds, the Heigham scheme included the installation of Europe's largest state-

of-the-art membrane ultrafiltration system, which removes sediment from the water through 7.5 million individual fibres before it is further treated to reach the exceptional standards required.

Cutting carbon was a priority, and the scheme saw a 62 per cent reduction in capital carbon versus the baseline solution, and an energy saving of more than two million kilowatt hours every year. The new treatment works can now secure safe, clean drinking water supplies while retaining its 57 megalitres per day capacity and protecting the precious chalk-fed River Wensum for the long term – a great outcome for the people of Norwich and a great outcome for our environment.



Children from Wensum Junior School have visited the works several times





# Outcome performance history

In AMP6 (the five-year period from 2015 to 2020), we have delivered high levels of performance across the board on our Outcome Delivery Incentives (ODIs). We have achieved this by making additional investments to exceed the stretching targets that were set at the start of the AMP period. We have improved on our industry-leading leakage performance from a level of 192 MI/d in 2014/15 to our best ever single-year leakage performance of 182MI/d in 2019/20. In Ofwat's Service Incentive Mechanism (SIM) measure of customer experience, we maintained our strong track record of outstanding customer service and finished AMP6 in top position, scoring highest on the combined measure in the final ever year of this measure in 2018/19.

We have reduced the number of customers at risk of low pressure by more than 70 per cent from 505 in 2014/15 to 148 in 2019/20. Our score for interruptions to supply has almost halved, from a score of more than 19 minutes in AMP5 to an average of 10 minutes in AMP6, despite an event in Leighton Buzzard in 2019 that will see us returning more than £10 million to customers.

The required improvements in interruptions to supply could only be achieved with an additional investment of £17.9 million, which included mains connectivity schemes to enable water to be brought from alternative sources, installation of more than 100 devices to remotely reset pumps upgrading our network pressure monitor reporting system and developing a dedicated Restoration team to help maintain supplies during an event.

We have reduced the number of internally flooded properties by 38 per cent from 475 in 2014/15 to 296 (three-year average) in 2019/20. This has earned us a reward of more than £10 million. And for externally flooded areas we have delivered a reduction of 41 per cent despite no reward being available for this ODI. This has seen the three-year average for the number of areas flooded reduce from 6,181 in 2014/15 to 3,631 (three-year average) in 2019/20.

The number of Category 3 pollution incidents attributed to our assets has also reduced from 390 in 2014/15 to an average of 204 in AMP6 – a 48 per cent reduction. This has earned us a combined reward of over £15 million for the whole of the period.

Water quality contacts have reduced by 22 per cent from 1.48 per 1,000 customers to 1.15 per 1,000 customers in the five years of AMP6, and the Drinking Water Inspectorate has assessed our Mean Zonal Compliance measure with drinking water standards to remain at 99.95 per cent or better for all five years as well.

We have delivered all 97 of our obligations to the Environment Agency under our Environmental Compliance ODIs and have avoided significant penalties for non-delivery of the associated schemes.

We have ended the AMP with 12 out of 13 Serviceability measures within the allowable limits, and in fact only three other measures were outside their limits on one occasion in the rest of the five-year period.

In 2019/20 we attracted a penalty for bathing water assessments as three of the bathing waters in our region were downgraded from 'Excellent' to 'Good' by the Environment Agency as a result of samples it took during heavy rainfall in June 2019 that caused flooding in parts of our region. The downgrading is currently the subject of judicial review at Anglian Water's request. As a result, we missed our target of 33 'Excellent' rated bathing waters by three, leading to a penalty of £13.3 million. A further penalty of £10.2 million has been attracted due to the interruption to water supply in Leighton Linlade, which caused our score for this measure to increase by 12 minutes and 40 seconds. Without this event the score would have been 5 minutes and 59 seconds, well below our target of 12 minutes. We have also missed our target on per property consumption, due to high water demand continuing after an exceptional year in 2018/19, caused by a dry summer and increased customer-side leaks as a result of the 2018 'Beast from the East' cold weather event. While consumption has dropped by seven litres per property per day this year, we have still seen an increase of four litres per property per day over AMP6 and have therefore attracted a penalty of £9.2 million.

In the first four years of the AMP (with data for other companies not available at present), we earned the second highest amount of reward for our performance with a projected £49.8 million. This was on the back of high performance in areas that Ofwat considers to be most important: SIM (customer service), leakage, interruptions to supply, internal sewer flooding and pollution incidents. In Ofwat's Service delivery report 2018–19, we were ranked as a top performer overall and top for both SIM and leakage. We also performed above average for supply interruptions and pollution incidents, as well as being in the top quarter for internal flooding and water quality contacts. We expect to earn another £9.5 million of reward this year, which has been partially offset by performance at bathing waters and due to the large supply interruption at Leighton Buzzard.



**“In Ofwat’s Service Incentive Mechanism (SIM) measure of customer experience, we maintained our strong track record of outstanding customer service and finished AMP6 in top position.”**

### ODI performance payments

The table below shows that in 2019/20 we have earned outperformance payments for performance in eight ODIs: leakage, properties at risk of persistent low pressure, water quality contacts, pollution incidents, internal sewer

flooding, fairness of bills perception, affordability perception and the SIM. We have also attracted penalties for six ODIs: interruptions to supply, water infrastructure serviceability, value for money perception – water, value for money perception – wastewater, per household consumption and bathing water quality.

The rewards and penalties stated in the table below have been inflated at year average RPI to 2019/20 prices to make them more relevant to stakeholders.

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

2019/20 prices (£m)	2015/16	2016/17	2017/18	2018/19	2019/20	Total <sup>1</sup>
Interruptions to supply	6.7	0.9	6.7	6.7	-10.2	11.1
Leakage	0.6	3.1	5.5	3.7	4.3	17.2
Low pressure	n/a	n/a	0.0	n/a	7.1	7.1
Pollution incidents	5.2	2.7	2.7	3.8	1.5	15.9
Value for money perception – water	0.1	0.0	0.2	0.0	0.0	0.3 <sup>2</sup>
Value for money perception – wastewater	0.1	0.0	0.1	0.0	0.0	0.3 <sup>2</sup>
Fairness of bills perception	0.1	0.1	0.3	0.1	0.1	0.6 <sup>2</sup>
Affordability perception	0.2	0.1	0.3	0.1	0.0	0.7 <sup>2</sup>
Water infrastructure serviceability	0.0	-0.7	0.0	0.0	-0.4	-1.1
Internal sewer flooding	n/a	n/a	n/a	n/a	10.3	10.3
Bathing waters	n/a	n/a	n/a	n/a	-13.3	-13.3
Per household consumption	n/a	n/a	n/a	n/a	-9.2	-9.2
SIM	n/a	n/a	n/a	n/a	19.3	19.3
Water quality contacts	0.0	0.0	0.0	0.1	0.1	0.2
<b>Total</b>	<b>13.1</b>	<b>6.3</b>	<b>15.9</b>	<b>14.5</b>	<b>9.5</b>	<b>59.3</b>

<sup>1</sup> Some totals do not sum due to rounding.

<sup>2</sup> Performance against our customer perception measures (value for money – water, value for money – sewerage, fairness and affordability) depends on data in the Consumer Council for Water report Water Matters. At the time this Annual Integrated Report was approved, Water Matters for 2019/20 had not been published, and therefore these performance measures have been added subsequently.





# Delivering our outcomes – ODI performance table

We measure our performance against 32 commitments, or Outcome Delivery Incentives (ODIs), which appear throughout this report. This table lists them all, together with our targets.

ODI	Target	RAG <sup>1</sup>	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. Although three measures are at green, because the measure for supply interruptions is at amber for the second year in a row this year, the ODI itself is assessed as amber.
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 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 assessed as green this year, the ODI itself is also assessed as green.
Service Incentive Mechanism (SIM) score	N/A	● 81.98	This measures the level of customer satisfaction with our service out of 100. While the financial incentives did not apply in 2019/20, Ofwat has instructed companies to report using a proxy measure using a different methodology than in previous years. This measure is replaced by C-MeX from April 2020. In 2018/19, the final year of full SIM reporting, we finished top of the league table for all water companies.
Qualitative SIM score – water and sewerage companies (WaSCs) rank	Top three	● 4/10	The qualitative element of SIM is based on ratings from customers who have contacted us throughout the year. For 2019/20 Ofwat has instructed companies to report using a proxy measure using a different methodology than in previous years.
Water supply interruptions	12 minutes	● 18 minutes, 39 seconds	This measures time lost due to water supply interruptions. Having beaten our target for each of the first four years of the AMP, this year's performance has been severely impacted by the incident at Leighton Linlade in December 2019 (see page 53).
Leakage – three-year average	192MI/d	● 185MI/d	The volume of water escaping from our pipes each day. We have cut leakage by a third since privatisation to industry-leading levels – around half the national average based on the amount of water lost per kilometre of main.
Pollution incidents (Category 3)	298	● 254	The number of pollution incidents classed as Category 3 by the Environment Agency that are due to escapes from our water recycling network. Performance is ahead of our target, which was to have no more than 298 Category 3 incidents.
Percentage of bathing waters attaining excellent status	67% by 2019/20	● 61%	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 been impacted by factors outside our control, including extreme weather, and we work with others to tackle third-party pollution.
Properties at risk of persistent low pressure	257 by 2019/20	● 148	The number of properties where customers may be affected by persistently low-pressure water supplies. We supply 2.2 million properties.
Properties flooded internally from sewers – three-year average	448 by 2019/20	● 296	The number of properties flooded internally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.
Properties flooded externally from sewers – three-year average	6,159 by 2019/20	● 3,631	The number of properties flooded externally by water from our sewers, with our performance given as a three-year average. This has been our best year to date.



ODI	Target	RAG <sup>1</sup>	Comments
Water quality contacts	1.23	● 1.15	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 fourth year running, with this year's total a significant improvement on previous years.
Percentage of sewerage capacity schemes incorporating sustainable solutions	25% by 2019/20	● 39%	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 delivered 33 schemes with sustainable solutions; some solely by Anglian Water and some in partnership with others.
Customer Satisfaction Index prepared by UK Institute of Customer Service	Upper quartile by 2019/20	● 74.6%	This measures our performance on the annual Customer Satisfaction Index. 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%	● -1%	Each year the Consumer Council for Water asks if customers think our water services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Value for money perception – variation from baseline against WaSCs (sewerage)	0%	● -1%	Each year the Consumer Council for Water asks if customers think our water recycling services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Fairness of bills perception – variation from baseline against WaSCs	0%	● 2%	Each year the Consumer Council for Water asks if customers think our bills are fair. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Affordability perception – variation from baseline against WaSCs	0%	● 1%	Each year the Consumer Council for Water asks if customers think our bills are affordable. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.
Mean Zonal Compliance	100%	● 99.96%	The key measure used by the Drinking Water Inspectorate to determine compliance with the stringent regulatory drinking water standards for England and Wales.
Percentage of population supplied by single supply system	24.7% by 2019/20	● 24.1%	We continue to improve the resilience of supplies to ensure the majority of people can be supplied from more than one source. Through implementing a programme of schemes, we have met our target for 2020.
Frequency of service-level restrictions (hosepipe bans)	Once every 10 years	● Once in the last 10 years	We have committed to limit hosepipe bans and other service restrictions to no more than once every 10 years. The last hosepipe ban was in 2012.
Security of Supply Index (SoSI) – dry year annual average	100	● 99 <sup>2</sup>	Measures the balance of supply and demand, incorporating risk factors. 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 the balance of supply and demand, incorporating risk factors. Used to identify any risk of a water shortage within our supply area and expressed as a score out of 100.
Per property consumption (PPC)	305 by 2019/20	● 316	The average water consumption of the households in our region in litres per household per day. Demand has reduced by eight litres per day versus 2018/19, when we had an exceptionally hot, dry summer.
Percentage of SSSIs (by area) with favourable status	>50% by 2019/20	● 99%	We own and manage a lot of land, including 49 Sites of Special Scientific Interest (SSSIs) 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	● 16	We have completed our full planned programme 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.
Environmental compliance (sewerage)	81 schemes by 2020	● 81	We have completed our full planned programme of schemes between 2015 and 2020 to comply with environmental obligations, including the Urban Wastewater Treatment Directive.
Gross operational carbon (percentage reduction from 2015 baseline)	7% by 2020	● 34%	The carbon emitted as a result of our operational activities – including the effect of decarbonisation of grid electricity.
Capital carbon (percentage reduction from 2010 baseline)	60% by 2020	● 61%	The carbon emitted as a result of construction projects we undertake.
Survey of community perception	60% by 2019/20	● 56%	Our survey asks whether people agree that Anglian Water cares about the communities it serves.

1 Red, amber, green status. NB these are internal Anglian Water ratings.

2 We have proposed to the Environment Agency to revise this measure to 100 as the zone affected has sufficient mitigation in place to ensure continuity of supply during a dry year.



# A smaller footprint

Customers are increasingly concerned about the impacts of climate change. As one of the largest energy consumers and emitters in the East of England, we have a responsibility to reduce our environmental 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. Our approach to sustainability will have a positive impact on affordability, and engaging in new markets will drive efficiency and innovation.

## Performance highlights:

- Beat our 2020 target to reduce the capital carbon in what we build by 60 per cent (from a 2010 baseline)
- Beat our 2020 target to reduce operational carbon reduction target by 7 per cent (from a 2015 baseline)
- Generated more renewable energy than ever before and started work on one of the biggest solar arrays in the water industry
- Peter Simpson became Co-Chair of the Prince of Wales's UK Corporate Leaders Group, whose members provide business leadership for a climate-neutral economy
- Helped to lead the development of the water industry's 2030 net zero route map
- Made our first climate disclosure through CDP and reported on our alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- First organisation to issue Climate Change Adaptation Report in response to the third round of reporting under the Climate Change Act (2008)



### Capital carbon

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



### Reduction from 2010 baseline

Target by 2019/20:

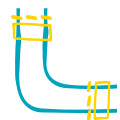
**60%**

Actual:

**61%**

### Gross operational carbon

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



### Reduction from 2015 baseline

Target by 2019/20:

**7%**

Actual:

**34%**



## Ambitious goals

We are in no doubt that we are facing a climate emergency and that we need to reduce our carbon footprint. We are one of the biggest energy users in the East of England and energy accounts for the majority of our carbon footprint. However, we don't just think of climate change in terms of risk. It is also an opportunity to challenge established practice and to do things differently and more efficiently. In response to these risks and opportunities, we have taken the bold step, together with our fellow water companies, of committing to become a net zero carbon business by 2030. Our CEO Peter Simpson is one of the co-sponsors of this hugely ambitious programme of work. Find out more about our approach to net zero on [pages 38–39](#).

## Carbon performance

This year we beat our capital carbon target, delivering a 61 per cent reduction from our 2010 baseline, and significantly exceeded our operational carbon goal of a 7 per cent reduction. Our annual gross operational carbon emissions decreased by 34 per cent in 2019/20 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO<sub>2</sub>e to 298,576 t/CO<sub>2</sub>e. Annual net operational carbon emissions decreased by 35 per cent in 2019/20 in comparison to the 2014/15 baseline, reducing from 446,834 t/CO<sub>2</sub>e to 290,266 t/CO<sub>2</sub>e. Our approach to carbon management continues to be verified by CEMARS to ISO 14064.

## Sustainability in design

Our integrated supply chain partners have once again been fundamental to our success in designing carbon out of the things we build. With their support we manage the carbon in all of our infrastructure projects in accordance with the Publicly Available Specification (PAS) standard for Carbon Management in Infrastructure (PAS 2080). This approach continues to be an important enabler to our Green Bonds. Further detail is available in 'Sustainable finance' on [pages 32–33](#).

## Energy savings

We have continued to improve our energy efficiency and reduce operational carbon emissions. This year we delivered 84 energy-saving projects, reducing our carbon emissions by 2,320 tonnes of CO<sub>2</sub>e and lowering our energy bill by £1.8 million.

## Renewable energy and storage

This has been a record-breaking year for renewable energy generation at Anglian Water. We generated 113.3GWh of renewable electricity from our fleet of Combined Heat and Power engines, which are fuelled by the biogas produced at our sludge treatment centres. We also generated 2.5GWh from both new and existing solar photovoltaics (PV) installations across our operational sites. Combined with a consistent 15.3GWh from our wind turbines, in the final year of AMP6 we generated 131.1GWh of electricity from the renewable energy generation assets across our estate; an increase of 30 per cent versus the position at the end of AMP5 and enough to power 40,000 homes for a year.

This year we started work on a 11.6MWp solar PV array at Grafham, which will be one of the biggest solar arrays in the water industry. We have appointed Next Energy Capital as our new delivery partner, with whom we will fund and develop innovative solutions around solar and energy storage; building on our energy storage pathfinders at Little Melton and Milton. This new relationship is a key part of our ambitious plan to consume 44 per cent of energy from on-site renewable sources by 2025, and constitutes the UK's largest unsubsidised solar and storage framework.

## Innovation

We have partnered with Oasthouse Ventures on a world-first project to build low-carbon greenhouses. The greenhouses will be the largest in the UK and will be warmed by the waste heat from our treatment facilities. Using £120 million of funding from major UK pension funds, the two greenhouses will be built next to our sites in Suffolk and Norfolk, dramatically reducing the carbon footprint of the produce grown there. When built, the greenhouses are expected to produce 12 per cent of the UK's tomato supply, while reducing the carbon footprint of the produce by 75 per cent – a win both for the region's economy and the environment.

## Sustainable transport

Since signing the Clean Van Commitment in 2018 we have continued to encourage more sustainable travel and have seen a reduction of more than 10 per cent in business miles claimed. We continue to make electric vehicles (EVs) and hybrid EVs available for company car drivers and now have 50 workplace charging points.

## Leadership

We are continuing to work with others to respond to the climate emergency. As well as being a co-sponsor of the water industry's 2030 net zero carbon commitment, Peter Simpson recently became Co-Chair of the Prince of Wales's UK Corporate Leaders' Group. The members of this group are business leaders committed to the transformation to net zero carbon emissions. The group will also support the deferred COP26, the United Nations' annual Climate Change conference being hosted by the UK in 2021.

This year we more fully integrated our management of our climate change mitigation and adaptation. For example, in our draft Climate Change Adaptation Report we recognised the transition risks associated with failing to manage carbon and energy and the increasing focus of the debt markets on low-carbon and climate-resilient investments. We were the first organisation to issue an Adaptation Report in this third round of reporting.

## Managing our waste responsibly

We have improved our data quality reporting and now have end-to-end visibility of our waste streams. This year 84 per cent of waste was recycled or recovered, which is an improvement of 3 per cent from last year. In 2018/19 41 per cent of construction waste was recycled, while 2019/20 saw a 12 percentage point increase in the weight of material recycled, to 53 per cent.



# 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:

- Committed to biodiversity net gain for capital investment and land management activities
- Facilitated important research and conference on nightingales with the British Trust for Ornithology
- Biodiversity baseline created for all Anglian Water sites
- Studies into bathing water carried out with the Centre for Research into Environment and Health
- 168 sewer blockages prevented using ‘missing sewage’ alarms

### Biodiversity

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



Target by 2019/20:

**>50%**

Actual:

**99%**

### Bathing waters

These are the EU Bathing Water Directive classifications for bathing waters in our region



Excellent

**30**

Good

**13**

Sufficient

**5**

Poor

**1**

Target:

**33**

Excellent

### Pollution incidents

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



Target by 2019/20:

**298**

Actual:

**254**

### Environmental compliance

#### Water

Number of schemes completed to comply with environmental obligations

Target and actual schemes by 2020:

**16**

#### Wastewater

Number of schemes completed to comply with environmental obligations

Target and actual schemes by 2020:

**81**







## Biodiversity

We own about 7,000 hectares of land, much of it important for wildlife. This includes 49 Sites of Special Scientific Interest (SSSI) and 154 Local Wildlife Sites. Our Biodiversity Strategy, written in 2016, set out our plan of action to protect and enhance wildlife on our sites and across the region. Most of the actions in the plan have been met, with the remaining to be completed by March 2021.

We completed a biodiversity baseline of all Anglian Water operational sites so we can meet our commitment for a measurable increase in biodiversity resulting from our construction and land management activities in our next business plan period 2020–2025.

## Engaging with farmers and landowners

We continue to work with farmers and the wider agriculture sector across the region to protect water quality. Improving water quality at source, as opposed to relying on treatment solutions, is more cost effective for our customers but also affords wider environmental and social benefits.

Speaking to farmers face to face is one of the most important things we do, with more than 270 farm visits in the past year. We discussed everything from pesticide and nutrient management plans to new investments in infrastructure and schemes to better protect the local environment.

At technical training events and shows, we shared our messages with more than 6,500 farmers across the region, covering a wide range of topics ranging from equipment maintenance and farmyard safety to livestock welfare and soil health.

## Healthy soil, healthy water

Soil health is a key part of the Government's Agriculture Bill; over the past year we have already taken a lead, partnering with the UK Soil Health Initiative at a strategic level while still engaging at a practical level with local farmers. We offered more than 100 farmers a free soil health assessment and held a series of soil health best practice workshops.

## Protecting our rivers and beaches

The RiverCare and BeachCare programme is our long-term partnership with Keep Britain Tidy to empower communities to look after their local environment. There are now 50 established volunteer groups looking after stretches of river and beach across our region.

## Striving for excellence

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

of pollution. Bathing waters are classified 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. Our priority remains to improve the quality of all bathing waters in our region to 'Excellent', as well as stabilising those already rated as 'Excellent'. Compared to last year we have dropped in the number of 'Excellent' classified bathing waters in our region from 32 down to 30, although one beach, Walton, improved from 'Good' to 'Excellent'.

The drops in classification down to 'Good' occurred at Cleethorpes, Humberston Fitties and Ingoldmells South. All three bathing waters are in Lincolnshire, and results were impacted by samples taken in June 2019, during what the Met Office described as "one of the most significant rainfall June rainfall events across Lincolnshire of the last 50+ years". This change in classification is currently subject to judicial review in a case brought on behalf of Anglian Water.

## Preventing pollution

We continue to strive to reduce the number of pollution incidents we see each year. This has been a challenging year. Our ODI target was to have no more than 298 incidents for the year 2019/20. This year resulted in a performance of 254 incidents. We have had two Category 1 incidents and 12 Category 2 incidents (10 relating to wastewater and two to water) for 2019. The majority (64 per cent) of these serious pollutions were self-reported. Overall in 2019, 71 per cent of our pollution events were identified and reported by our own staff, rather than a customer. Our target is more than 80 per cent in 2020, and we are on track to deliver this.

Our AMP7 plan for pollution reduction is set out in our Pollution Incident Reduction Plan, which will be submitted to the Environment Agency this summer.

## Our proactive approach

In addition to our training activities above, we have prevented 168 pollutions using 'missing sewage' alarms. These use analytic intelligence to identify the current flows passing through our assets, highlighting if no flow is passing so that we can investigate and minimise environmental impact by resolving any issues promptly. This enables us to take a proactive approach to pollution prevention.

We have installed more than 100 pressure monitors on our rising mains; this has allowed us to monitor our assets to proactively prevent any burst rising mains, avoiding nine pollutions in 2019.

We continue to run our Pollution Watch campaign to raise public awareness about the causes of sewage and water pollution, the impact it has and the signs to look out for.

We are collaborating with Keep Britain Tidy, RiverCare and BeachCare, along with Connect Right, to ensure we are doing all we can to prevent and highlight pollutions.



# 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 sustainability.

## Performance highlights:

- Published final Water Resources Management Plan for 2020–2045
- Consulted on our updated Drought Plan and published the revised version
- Published our approach to working collaboratively with councils to plan for development: *Local Plans – An Anglian Water Perspective*
- Reduced leakage to our lowest ever levels, the ninth year we have beaten our leakage target
- Brought together 50 stakeholders as part of the co-creation process for Drainage and Wastewater Management Plan

### Security of Supply Index (SoSI)

These measure the balance of supply and demand, incorporating risk factors

Dry year annual average

Target:

**100**

Actual:

**99\***

Critical period (peak) demand

Target:

**100**

Actual:

**100**



### 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**



### Leakage (three-year average)

This is the volume of water escaping from our pipes and customer supply pipes every day

Target:

**192MI/d**

Actual:

**185MI/d**



\* We have proposed to the Environment Agency to revise this measure to 100 as the zone affected has sufficient mitigation in place to ensure continuity of supply during a dry year.



## Scale of the challenge

As a region we face a time of great uncertainty and change. Our supply–demand balance is under significant pressure, and we have to act now to ensure there will be enough water available for future generations. See [pages 16–17](#) for more information on the challenges we face.

## Planning for the long term

This year we published our final 2019 Water Resources Management Plan (WRMP), having undertaken public consultation in 2018. This plan sets out how we will manage the water supplies in our region to meet current and future needs over a minimum of 25 years. We will focus on the demand side first to reduce the amount of water used, which is our customers' preferred priority, and we will also invest in the supply side to maintain the amount of water available.

We also published our Water Recycling Long-Term Plan (WRLTP) in September 2018, and have since used it in discussions with planning authorities, the Environment Agency, customer focus groups and charities. This year we've focused on evolving our WRLTP into the production of the Drainage and Wastewater Management Plan (DWMP), to be published in 2022. The DWMP is an industry-wide, stakeholder-focused framework which will give the same level of focus to long-term strategic planning for water recycling as the WRMP does for water planning. In January we held a DWMP stakeholder workshop, bringing together 50 external stakeholders from planning authorities, the Environment Agency, and charitable groups to begin the process of working together.

## Demand management strategy

### KEY POINTS

- Leakage reduction: significant reduction in leakage by 2025 with an ambition of reducing our leakage levels to less than 10 per cent of the water we supply to our customers by 2045.
- Installation of smart meters with complete coverage across our region by 2030 to enable changes in customer usage by giving them access to their daily water usage.
- Innovative water efficiency schemes, including behavioural change initiatives to help our customers become even more water efficient.

## Supply-side strategy

### KEY POINTS

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

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

## Safeguarding the environment

Under tighter environmental protection laws, we must reduce the amount of water we can take out of rivers and aquifers to feed our water network so that our actions don't have the potential to cause harm to the environment. Between 2020 and 2025 we will implement 'sustainability reductions', relinquishing our abstraction rights in sensitive areas by 85 million litres daily. We are also delivering an extensive programme of improvement works to our region's rivers, to improve flows and support the natural ecology.

## Planning for a drought

This year we have updated and consulted on 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.

We have also managed a period of below average rainfall between the summer of 2018 and the autumn of 2019, which resulted in record low groundwater levels in some parts of our region. Water resources have now fully recovered across most of our region, following the extensive autumn and winter rainfall events.

## Tackling leakage

Together with our fellow water companies in England, we have committed to triple the rate of sector-wide leakage reduction by 2030. Thanks to our exceptional track record on leakage reduction, our CEO Peter Simpson has been chosen to co-sponsor this commitment with the CEOs of Portsmouth Water and Affinity Water, sharing our learnings and driving industry-wide progress.

This year we have reduced leakage to our lowest ever levels of 182Ml/d, a reduction of 9Ml/d from last year. Our three-year rolling average, on which Ofwat measures our performance, is now 185Ml/d, versus our target of 192Ml/d. This is the ninth consecutive year we have beaten our leakage target.

We have continued to roll out our network of permanent noise sensors which listen for new leaks every night. These have been successful at reducing leakage, alerting us to any issues so we can respond before customers need to tell us about them. We have these sensors installed in 183 District Meter Areas covering 247,000 properties (11 per cent of total) and 3,525km of water main (9 per cent of total).

Over the past year we have kept our leakage monitoring systems operational at all times, responding to more than 1,512 faults and replacing some 106 failed network flow meters.

We have worked on trials to explore identifying leakage by monitoring water temperature in the network, identifying leakage using fibre-optic cables running in water mains and using satellite imagery to locate leaks.



# 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 increasing frequency of such events.

## Performance highlights:

- Completed AMP6 programme of capital projects to improve security and ensure compliance with government standards for operational assets at our water and water recycling sites
- Amassed more than 900 trained volunteers in Anglian Water Force, our quick response team
- Implemented business continuity plans to maintain essential services during Covid-19 outbreak
- Retained our certification to ISO 22301, an international standard in business continuity management
- Reduced the percentage of homes supplied by a single source from 46.9 per cent in 2015 to 24.1 per cent in 2020
- 27-strong team of restoration technicians trained to drive water tankers and use a variety of equipment and techniques to restore water supplies

### Percentage of properties supplied by single supply system



Target by 2019/20:

**24.7%**

Actual:

**24.1%**

### Interruptions to supply



This measures time lost due to water supply interruptions

Target:

**12 minutes**  
**00 secs**  
per household

Actual:

**18 minutes**  
**39 secs**  
per household

### Service-level restrictions

Frequency of service-level restrictions such as hosepipe bans



Target:

**Once every 10 years**

Actual:

**Once in last 10 years (2012)**







Flooding, high winds and Covid-19 are some of the challenges we have faced as a business this year while we ensure the continuity of supply and service to our customers 24 hours a day, 365 days of the year. Events like these require meticulous resilience planning, and Anglian Water has well-rehearsed policies, plans and procedures to ensure we minimise any risk to customers. Ensuring we have extra pairs of hands, with the right skills and knowledge, when we most need them is a core part of our overall resilience strategy. We have more than 900 recruits to the Anglian Water Force, a team of volunteers from our business and our alliance partners who are ready to respond quickly in the event of an incident. We run a comprehensive in-house programme for training and exercising those likely to be involved in an incident.

Anglian Water continues to be certified to ISO 22301, an international standard in business continuity management, which recognises that we have the plans and systems in place to keep our business running. We also actively engage across our 13 Local Resilience Forums and the Multi-Agency Support Group for the East of England in planning and risk mitigation to ensure interdependencies are known and mitigations are prepared. Alongside the usual planning and exercising, we supported the response to severe flooding in our region in June 2019 and the response to the Covid-19 pandemic (see [pages 10–11](#)).

We collaborate with other water companies across the country through a national Water UK group, which meets to plan for and respond to events such as Brexit, severe weather and coronavirus.

We have completed our AMP6 programme of capital projects to improve security and ensure compliance with government standards for operational assets at our water and water recycling sites. Our ultimate aim is to increase our resilience as a business so that, no matter what, we keep taps running.

## Protecting supplies

We've set ourselves the target of having no properties supplied by a single supply source by 2035 – key to building a resilient network. In 2015 we had 46.9 per cent of our customers on a single system, and by the end of AMP6 we have reduced this to 24.1 per cent. By the end of AMP7 we intend to reduce this further to 14.1 per cent.

## Restore, repair, recharge

We have invested in technology to keep small numbers of properties on water during long-duration events, such as pumped collapsible combination boxes and power bowzers, mimicking what we would do in a large event, but scaled down to ensure all customer needs are met. We have also implemented line-stopping capability. This enables us to insert a line stop into a live water main, controlling the flow and pressure to allow repair teams to undertake maintenance and repair work without turning off our customers' water supply. We have also purchased large diameter 150mm overland hoses and trained Restoration colleagues to use them.

## Leighton Linlade

Over the weekend of 13–15 December 2019, we faced an exceptionally challenging operational incident, with some customers off water for up to 53 hours. The incident was triggered by a faulty valve on a water main in Leighton Buzzard, and although we were able to fix the initial issue relatively quickly, air trapped in pipes as a result proved difficult and time-consuming to resolve. The work we carried out throughout the weekend – with more than 700 colleagues and alliance partners pitching in to help – meant the number of customers without water reduced steadily, but regrettably, some went the whole weekend without water.

We did everything we could to alleviate the situation, setting up three water hubs and distributing more than 190,000 litres of bottled water, including house-to-house deliveries of 36,000 litres to 1,474 customers on our Priority Services Register. We were also grateful to have many offers of help at our hubs, with community groups helping to load and deliver bottled water to vulnerable customers across the town. As a thank you for their support, we have donated £10,000 for a community investment fund.

Clearly there are lessons to be learned, both from the incident itself and our response to it. An incident like this is rare at Anglian Water, and we want to make sure that remains the case. We have carried out a detailed investigation and review of what happened, sharing our findings with customers in the town at a public meeting, attended by our CEO Peter Simpson and a number of his Management Board colleagues, in February 2020.

We are investing £250,000 in network improvements in the town to reduce the potential for any similar events in the future. A further four 18,000-litre tankers will be added to our clean water tanker fleet next year, taking it to a total of 22 tankers, ranging from smaller 9,000-litre tankers to navigate into tight spaces and narrow roads to 29,000-litre tankers for larger deployments.

## Impact of climate change felt in Lincolnshire

Well over double the monthly average rainfall fell in parts of Lincolnshire from 10 to 12 June 2019. Around 600 homes in Wainfleet were evacuated and nearly 130 properties flooded when the River Steeping burst its banks. Autumn rainfall records were also broken in the county, with the previous records set in 2000. This led to increased customer workload and tankering operations in the Lincolnshire and Humberside region to protect customers from flooding and maintain service. Working alongside our colleagues in the Environment Agency, we were granted several exceptional Local Enforcement Permits to pump directly into the environment, highlighting the exceptional conditions.



# Investing for tomorrow

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

## To meet this outcome...

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

## Performance highlights:

- Outperformed many of our targets and on track to be in an overall reward position against our Outcome Delivery Incentives (ODIs) for AMP6
- Achieved our 2020 carbon reduction targets, setting us on the right road to reach net zero carbon by 2030
- New enterprise alliance created to deliver Water Resources Management Plan commitments
- Innovate East event attracted 1,800 delegates from almost 300 organisations
- £2.2 billion AMP6 (2015–2020) programme of investment completed
- More than 110,000 new and replacement water connections and 132,000 water recycling connections across AMP6
- Winner, In-House Planning Team of the Year, Royal Town Planning Institute Awards for Planning Excellence 2020

## Serviceability measures

These are the key measures of how we invest in our water and water recycling assets. Several measures are combined to come up with an overall red, amber or green rating for each



### Serviceability: Water

Infrastructure:

**Amber**

Non-infrastructure:

**Green**

### Serviceability: Sewerage

Infrastructure:

**Green**

Non-infrastructure:

**Green**





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. In AMP6, we completed a £2.2 billion programme of investment, delivered by our alliance partners, which will help provide our services until 2030.

## Keeping our assets fit for purpose

A good service relies on well-maintained assets – pipes, pumps, works, equipment and buildings. Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in the maintenance of assets.

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

The Environment Agency assesses the quality of the water we return to the environment at 718 water recycling centres (WRCs). Our performance is assessed against two measures. This year we had eight WRCs failing their numeric limits, an improvement both on 2018/19's figure and across the AMP. We carry out investigations to understand the root cause of failures to improve performance throughout our sites, raise awareness and share knowledge across our operational teams.

## Sewer collapses

The number of sewer collapses and burst rising mains on our network continues to fall, with 201 incidents against a target of 520. An initiative that initially developed in our Innovation Shop Window on pressure monitoring of rising mains has proved to be successful, with 117 pressure monitors installed. These have highlighted 14 potential burst rising mains within our network and we've proactively prevented nine pollutions. We're able to understand our network and intervene before it has any impact to the environment, as well as gaining vital insight into how we can extend the life of an asset.

## Securing supplies for the long term

Our Water Resources Management Plan looks 25 years ahead to manage and secure the water resources across the region. A vital element is an ambitious plan to create a series of up to 500km of interconnecting pipelines and associated infrastructure to move water from areas of surplus in Lincolnshire down to the drier south and east of our region.

The programme will also enable us to reduce the amount of water we take from the environment, as well as strengthening long-term resilience to climate change, population growth and drought.

The programme will be delivered via more than 20 discrete schemes of work by the Strategic Pipeline Alliance, a new enterprise alliance with construction and engineering firms Costain, Farrans, Jacobs and Mott MacDonald Bentley.

## Driving progress through innovation

We constantly strive to make progress by investing in innovation. This year we went further than ever before, running a three-day innovation event, Innovate East, in partnership with Essex and Suffolk Water. Some 1,800 delegates from almost 300 organisations came together to find solutions to some of the most pressing issues facing the water industry, the eastern region and society as a whole. We also evolved our innovation programme, our Innovation Shop Window, centred around Newmarket. It goes beyond trialling and showcasing the latest technology by developing the best solutions for our challenges and then scaling up across the region.

When we started the Shop Window in 2017, our key focus was providing a platform for our supply chain to help us solve our challenges and create a vision of what a future water company could be. Now it is established – with over 150 partners on board and over 130 projects under way or completed – the focus has shifted to engaging customers and challenging our own staff to truly create the water company of the future, today.

## Investing in optimisation

Our smart water systems project began life in the Shop Window and has delivered tangible outcomes. It is now part of a much larger programme within a dedicated optimisation team. In AMP7 we will install permanent noise loggers across more than half our network, increasing our ability to detect leaks. We will also optimise 60 per cent of our region using pressure management controllers and roll out high-frequency pressure monitoring across the whole network.

## Supporting population growth

We are seeing exceptional growth across the Anglian Water region, with a year-on-year increase in water and water recycling connections, water main delivery and commissioning. Over the course of AMP6, more than 110,000 new and replacement water connections and some 132,000 water recycling connections have been made, delivering against Government housing targets – with more than 24,000 water connections in the past 12 months.

## Preparing for AMP7

As we enter AMP7, we face an unprecedented set of challenges. However, the preparations we have made mean that we start from a strong position. We have realigned our operating model around three key functions – water, water recycling, and customer and wholesale services – aligning our asset management and information technology capabilities with our operational functions and ensuring decisions are made by those accountable for delivery. Our four key goals for AMP7 are:

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



# Safe, clean water

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

## To meet this outcome...

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

## Performance highlights:

- Customer contacts regarding drinking water quality at best-ever levels
- Exceeded serviceability targets at our water treatment works
- One of only two water companies to achieve new Drinking Water Inspectorate (DWI) Risk Assessment accreditation
- Visited more than 8,600 properties to ensure plumbing compliance and protect drinking water quality

### Mean zonal compliance

This is a measure of compliance with water quality parameters



Target:

**100%**

Actual:

**99.96%**

### Water quality contacts

This measures taste, odour and appearance contacts per thousand customers



Target by 2019/20:

**1.23**

Actual:

**1.15**







## Water quality contacts

Once again we have seen a reduction in the number of contacts we receive from customers about the taste, odour and appearance of their water. Last year saw us achieve a record low of 1.18 per thousand people. This year we exceeded that performance, achieving 1.15 per thousand, thanks to a continued focus on supporting customers through our social media channels and responding to every single cluster of two or more contacts.

## Performance at our supply sites and our networks

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

In 2019, as part of its routine assessments, the DWI audited our WTWs at Candlesby, in Lincolnshire, and Wing, in Rutland. We received detailed reports from the Inspectorate and the results of both audits were satisfactory.

The theme of the second audit was competence, and we were particularly praised for our approach to training and development and our Licence to Operate scheme for competent scientists. The scheme is leading in the industry and sees our scientists work towards Chartership of a professional body, often the Institute of Water.

Mean Zonal Compliance (MZC) is one of the key measures used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales. It is one of our ODIs, with a target this year of 100 per cent. This year we achieved 99.96 per cent. In 2017, the DWI introduced a new measure called the Compliance Risk Index (CRI), which will replace MZC as our ODI from 2020.

CRI has four components: treatment, reservoir, supply points and zones. Our estimated CRI for 2019 from DWI is 1.68, a significant improvement on the year before, partly due to the fact that we had no metaldehyde failures. There will also be a second new measure, called the Event Risk Index, which is determined by the type of DWI-notifiable events we have and how we respond to them. We estimated it for 2019 at 8.28, again an improvement on the previous year and well below the previous year's industry average.

## DWI Risk Management Assessment Scheme

This scheme, jointly developed by the DWI, Lloyd's Register and in consultation with water companies, was launched on 1 August 2019. Anglian Water was one of only two water companies to be accredited – a huge achievement that demonstrates we have an excellent risk management framework.

## Metaldehyde compliance

In 2019 we had no metaldehyde failures, a significant achievement that links directly to our work on catchment management and abstraction management. We are currently engaging with the Department for Environment, Food and Rural Affairs (Defra), with the support of the DWI, to encourage the reinstatement of the ban on the use of metaldehyde across England and Wales, which was overturned by the courts in July 2019.

## Lead strategy

Lead can be harmful to health, especially for young children and expectant mothers, and the main source in drinking water comes from pipes in properties built before 1970. We replaced around 200 lead pipes last year, through a combination of work to identify lead sample results that exceed the regulatory limit and reconnecting customers who replaced their lead pipes. Since 2015 we have replaced a further 4,400 lead communication pipes with plastic ones, completing our committed programme of work.

An additional approach to reducing lead levels in drinking water is to add a small amount of orthophosphoric acid, which forms a coating inside the pipe to stop lead dissolving into the water. New equipment at our WTWs has been hugely successful in reducing the number of lead sample failures at customer taps.

Alongside this we operate our Lead Advice Line; we also updated our website and customers can now book their own lead test online. Last year we received just over 700 requests for free tests, an increase on the previous year.

## Getting plumbing right

The Water Supply (Water Fittings) Regulations 1999 set out national requirements for plumbing systems, water fittings and water-using appliances. As the water supplier in this region, it is our duty to enforce these.

We are only responsible for the pipework up to a property's boundary, but unfortunately customers sometimes fit, or have fitted, plumbing that can affect the taste and odour of their water supply or cause more severe contamination of their supply or our network. So to reduce these risks we inspect existing properties as well as carrying out thousands of plumbing inspections on new build properties.

In 2019 we completed our comprehensive five-year inspection programme on public buildings. Most had never been inspected previously, so it was a great opportunity to engage with their owners and occupiers.

In total we inspected more than 8,600 properties, ranging from hospitals to farms, and chemical works to ports. Many of these properties had plumbing installed that didn't comply with plumbing regulations. As well as possible contamination risks, we were able to highlight many points of leakage which were remedied as part of any Improvement Notice issued.

We also continue to work with eight plumbing training colleges across our region to teach plumbers of the future more about water fittings compliance.



# “” 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:

- Top water and water recycling company for Ofwat’s Service Incentive Mechanism for customer service across AMP6
- Ranked as top-performing company in Ofwat’s overall Service Delivery Report for 2018–19
- MyAccount app launched in seven languages
- Record low incidences of internal and external flooding
- New national Fine to Flush specification agreed to identify wipes which can be safely flushed

### Service Incentive Mechanism (SIM)



This measure, based on ratings from customers who have contacted us, is being replaced by the Customer Measure of Experience (CMEx) from April 2020

Target:

**Top three water and water recycling companies**

Actual:

**First among water and sewerage companies for SIM over AMP6**

### 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:

**296**

### 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:

**3,631**

### Percentage of sewerage capacity schemes incorporating sustainable solutions



Percentage of sewerage capacity schemes incorporating sustainable solutions

After delivering 33 schemes in AMP6, we have exceeded our target

Target by 2019/20:

**25%**

Actual:

**39%**

### Properties at risk of persistent low pressure



Properties at risk of persistent low pressure (the number of properties not receiving reference-level pressure)

Target by 2019/20:

**257**

Actual:

**148**



Our customers are instrumental in shaping what we do now and how we plan for the future (see [page 21](#)). Using a ‘test and learn, agile change development’ process, we capture customer requirements and ideas, quickly introducing changes based on their feedback.

Make Today Great is our platform for getting everyone across the business involved in making sure that our customers are at the heart of everything we do and every decision we make, no matter what our role is. We have a big ambition – we want to make life better for our customers, every single day. Our Company-wide leadership and customer service training programme has been fully embedded this year, with teams focused on the behaviours our customers told us were important, particularly making things personal and effortless.

The success of our approach was highlighted in July 2019 when it was confirmed that Anglian Water was again named number one for service, based on feedback from customers, making us the top-performing water and water recycling company of the AMP. 2018/19 was the last year Ofwat used the Service Incentive Mechanism (SIM), which is being replaced by a new Customer Measure of Experience (CMeX). The new CMeX starts from 2020/21 and we aim to keep that top spot.

Our digital transformation continued this year with a redesigned website, optimised for accessibility. Enhancements were also made to our online MyAccount portal, enabling customers to sign up directly to our priority services, change their circumstances and update their support requirements. This year also saw us launch our mobile app, available in seven languages.

## WaterCare

In June 2019 we appointed a partnerships co-ordinator dedicated to working with third parties to raise awareness of our priority services for customers in vulnerable circumstances and our affordability help schemes. More details on how we support customers with affordability concerns are on [page 62](#).

## Supporting developers

The service we provide to our developer customers will be measured from 1 April 2020 via the Developer Measurement of Experience (DMeX), which combines qualitative customer satisfaction ratings and quantitative Water UK level of service metrics. For the first half of the shadow year (April–September 2019), Anglian Water achieved fourth place in a league table of peers with a total DMeX score of 85.77.

Over the next 12 months, we will also enact Ofwat’s new charging rules and embed Codes for Adoption for both water recycling and water services.

## Preventing and mitigating flood risk

We constantly strive to reduce the number of customers impacted by flooding. Our performance in sewer flooding is measured against two separate ODIs, which look at the

three-year average for incidents of internal and external flooding. We are beating our target for both, following on from last year’s record-setting performance (see [facing page](#)). In the final year of AMP6 we have continued to install flood mitigation measures, non-return valves, which can protect single or multiple properties, and flood doors. A small number of large capital schemes have been and are being commissioned that will deliver the benefits expected going into the next AMP.

## Keep It Clear

A major cause of pollution and flooding in our communities is avoidable blockages in pipes. More than 80 per cent of the 40,000 blockages our crews deal with each year are not caused by weather or sewer condition.

Our award-winning and industry-leading behaviour change programme Keep It Clear is successfully addressing the issue through a range of engaging and motivational campaigns and strategies. Working with communities, local authority environmental health, waste and recycling teams, major environmental charities, schools and food premises, Keep It Clear has also been influential in driving change at a national level.

Last year hundreds of awareness-raising initiatives took place, ranging from talks and festivals to events with storytellers and sand sculptors, reaching out to more than 25,000 people. This targeted interaction in Keep It Clear sustained hotspots has led to a 43 per cent average reduction in blockages compared to a 24 per cent average in non-Keep It Clear towns.

The Keep It Clear programme was the driving force behind breaking a five-year deadlock of confusion to arrive at a water industry-agreed specification for wet wipes. Fine to Flush – a major development in the fight against fatbergs – is the new official specification identifying which wipes can be safely flushed.

## Working with partners to prevent flooding

We have successfully delivered the final year of our AMP6 partnership funding programme with a range of partners. This programme has reduced flood risk to our customers and assets from surface water and river flows, as well as protecting some of our key assets from coastal erosion. We were also successful in securing additional funding for our AMP7 partnership funding programme.

## Sustainable drainage systems

By using Sustainable Drainage Systems (SuDS) we are reducing and slowing the rainfall entering our sewers, helping to prevent surface water flooding that could impact our customers. Since 2015 we have delivered 33 schemes using sustainable solutions. This equates to 39 per cent of all the sewerage capacity schemes that we have delivered, well ahead of our 25 per cent target for 2015–2020.



# Fair charges, fair returns

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

## To meet this outcome...

We must be an efficient company, quick to address challenges of affordability, make long-term prudent investment choices and embrace development of markets that benefit our customers. To keep investing for our customers, we need to raise money at competitive rates and pay a fair return to our investors.

Since privatisation, our customers have had the lowest percentage increase in average household bills of any company; our bills have increased just 10 per cent, compared to an industry average of 46 per cent. At PR14, our Business Plan for 2015–2020, our bills fell by more than twice the industry average.

## Performance highlights:

- Six Green Bonds now issued, providing £876 million funding for around 850 projects
- £165 million of efficiencies reinvested across AMP6
- Nearly 197,000 customers supported by ExtraCare team
- Committed to make bills affordable as a minimum for all households where water and sewerage bills constitute more than 5 per cent of their disposable income by 2030
- 83 per cent of customers receive metered bills

### Fair financing



**£876 million**

raised in Green Bonds since 2017

### Bills and affordability



Each year CCW – the voice for water consumers – asks if customers think our water and water recycling services offer value for money. This shows how our score has changed against our baseline performance

Water	Water recycling	CCW also asks whether our bills are fair and affordable. Again, score is against our baseline performance
<b>-1%</b>	<b>-1%</b>	
		Fair
		<b>2%</b>
		Affordable
		<b>1%</b>



500,000 engagements with customers informed our Business Plan for 2020–2025





## Operating responsibly

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

- we act in the public interest
- 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.

## Sharing the rewards

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

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

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

Efficiencies are either reinvested to improve service for customers or shared with customers, 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 invested an additional £100 million in services and an extra £65 million in resilience schemes over the AMP period.

## Responsible financing

We have always raised our debt through UK-registered companies, and our debt is listed on the London Stock Exchange. We also seek to raise our finance sustainably, and in 2017 became the first European utility to issue a sterling Green Bond. Over the course of AMP6, we have now raised a total of £876 million in Green Bond finance to investors in the UK and the United States in accordance with the ICMA Green Bond Principles, funding some 850 projects. We also use liquidity bank facilities that incentivise or impose penalties for delivering agreed environmental and social goals. Our approach to the payment of dividends to shareholders is covered on [page 63](#).

In line with our social and environmental purpose we propose to raise the majority of our future finance as sustainable finance. Find out more about our approach in 'Sustainable finance', [pages 32–33](#).

## Fair charges

Our customers want services that provide value for money, and are fair and affordable. Our PR19 Business Plan, created following engagement with more than half a million customers and stakeholders, includes a significant increase in investment for our customers while reducing bills and returns to our investors.

The average bill in 2019/20 was £438, the equivalent of £1.20 per day. Excluding the effect of inflation, bills have remained flat across the last five years.

Following the two-year price review process led by our economic regulator Ofwat, average bills in 2020/21 will reduce to £412 a year, or £1.13 a day. Customers with a water meter will pay even less, with the average metered bill dropping to £385 a year. While tariffs set by the regulator apply for the first year, and they have been implemented in line with the Final Determination, the Company has asked the regulator to refer its decision to the Competition and Markets Authority (CMA). The CMA will now redetermine prices and this process is expected to be complete by March 2021.

Each year we find out what our customers think about our charges through four independent surveys, carried out by CCW – the voice for water consumers. These cover perceptions of fairness, affordability and whether our water and water recycling services offer value for money. At the start of the current AMP, survey scores for the industry were used to calculate an average for each measure and our score in relation to each of the four averages was set as a baseline. Each year the surveys are repeated and new averages are worked out. Our score in relation to the new averages is compared with the baseline to understand our performance. We are committed to at least maintaining levels of satisfaction in each area. Having exceeded our baseline on two of the four measures, we have earned an ODI reward of £25,000 for 2019/20 (see [page 43](#)).

We understand that customers who don't feel our bills are fair and affordable are more likely to be in lower income or larger occupancy households where the water/sewerage bill is probably a higher proportion of the household budget, and therefore creates a greater risk of affordability problems. We have committed to make bills affordable as a minimum for all households where water and sewerage bills constitute more than 5 per cent of their disposable income by 2030 and to develop a strategy to end water poverty. This is one of five Public Interest Commitments made jointly with our fellow water companies in England in April 2019.



## Help for those who need it

We also understand that affordability will vary across time for the same household and can be driven by different circumstances. For many customers it is an occasional or infrequent event, often materialising due to the timing of the bill creating short-term budgeting issues. Other customers face a more fundamental, perhaps longer-term problem where household income doesn't match outgoings.

The different nature of each problem requires us to develop combined solutions that are tailored to individual needs. We recognise that we cannot solve wider affordability problems alone, but by linking into and helping mobilise the wider support available we can make a big difference in customers' lives.

We are transforming the service that we offer customers with affordability concerns, applying experience from across our business in order to target support most effectively.

Using data analytics we now route customer contacts with high affordability risk through to our ExtraCare team, where we can firstly check to see if they are claiming all benefits to which the household is entitled. On occasion this review results in customers receiving thousands of pounds in extra benefits.

We then look to see what help we can provide to customers in managing their payments to us with schemes including payment holidays, affordable instalment plans and settlement agreements. Through these schemes we have been able to assist nearly 197,000 customers over the last 12 months.

Assistance also includes the tariff schemes we operate for customers, including the Aquacare Plus and WaterSure concessionary tariffs, and our social tariff called LITE, for all of which eligible applicants receive a lower bill.

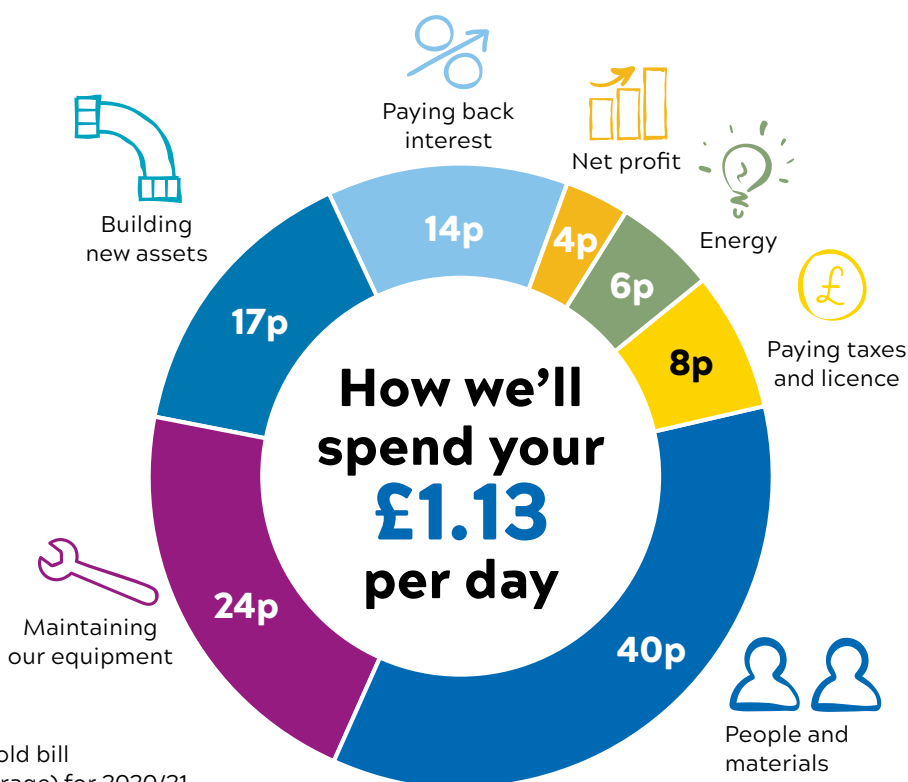
Altogether, these schemes provided assistance to more than 345,000 customers during 2019/20.

All this support is captured under our WaterCare banner, to help customers identify the help available and to promote our services directly to target groups.

The Covid-19 outbreak has had a serious impact on many of our customers' household finances, and we recognise our responsibility to help and advise those who are struggling to pay. We have highlighted the support available to customers prominently on our website and in all of our communications about the outbreak, encouraging those in difficulty to contact us to discuss their circumstances. That help will continue for those impacted by the Covid-19 outbreak, or any other financial issues, throughout AMP7 and beyond. Find out more on [pages 10 and 59](#).

## Where does customers' money go?

Keeping bills low while maintaining investment in the things our customers value most was, and remains, a key goal in the Business Plan we submitted for AMP7. We are committed to delivering value for money, efficiency and transparency about how we spend the money that comes into our business through customers' bills. Based on the average household bill in 2020/21, water and sewerage charges will cost £1.13 per day. Below is a breakdown of how we spend that money.



Average household bill (water plus sewerage) for 2020/21



## Metering and water efficiency

Metering is the fairest way to charge for water, encourage water saving and ensure our customers only pay for what they use. Typically, customers save over £100 a year and use up to 15 per cent less water when they switch to metered charging, and 83 per cent of our customers already receive a metered bill.

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

Our Wave programme – where we combine all the elements of metering and water efficiency in defined geographical areas – has made good progress, installing 11,800 new meters and proactively replacing 72,000 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 visited 45,907.

We assess our success in encouraging water-efficient behaviour by measuring average water consumption per household. This is one of our ODIs. Our target was to reduce the average per household consumption by seven litres a day between 2014/15 and 2019/20, by continuing to transfer customers to meters and supporting them to use water more efficiently. Unfortunately, although demand reduced in 2019/20 following the exceptionally hot summer of 2018/19, we have not met this target (see [page 45](#)).

This year sees the start of our smart metering roll-out, where we will begin upgrading all of our customers' meters. 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.

Our online MyAccount customer portal will be enhanced to let customers view their own consumption data and see where they could save 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 price determination, this can adversely affect our finances as we are under-recovering our costs. Conversely, when inflation outturns at a higher rate, it can benefit companies, and this may be perceived as unfair. We look to manage this inflation risk to minimise the impact for us and our customers, and the link to inflation is a key driver of the relatively low costs of capital from which customers benefit.

Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset. We currently have a strategy to reduce the percentage of debt compared to our regulatory capital value. This means shareholders will 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 Company's dividend policy is to identify the cash available for distribution, allowing for the business' 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 designed to ensure that there is adequate headroom in relation to all of the Company's financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts 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 consideration of the needs of our customers, employees, pensions schemes and other stakeholders while ensuring the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and, in practice, will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Company's Licence.

As part of its PR19 process, Ofwat has introduced a mechanism that penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat's AMP7 determination) by way of an application to the CMA for a redetermination. The Company's approach to de-gearing will be reviewed in the light of the CMA's decision, which is expected no later than March 2021.



## Tax

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support moves towards greater transparency that increase understanding of tax systems and the building of public trust. We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Our taxable profits are less than the profits shown in our accounts, and our effective rate of corporation tax is in line with 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 than depreciation.

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

## An open and constructive approach

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

### Tax planning and compliance

- We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We are registered for tax in the UK and do not engage in artificial tax arrangements.

- We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development (OECD) principles and regulatory accounting guidelines.
- We adhere to relevant tax laws and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.
- We believe we are compliant with UK tax legislation and pay the right taxes at the right time.
- Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.
- Due consideration will be given to the Group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the Group, and will form part of the overall decision-making and risk assessment process.

### Relationships with tax authorities

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

### Tax risk management and governance

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





## Our tax contribution

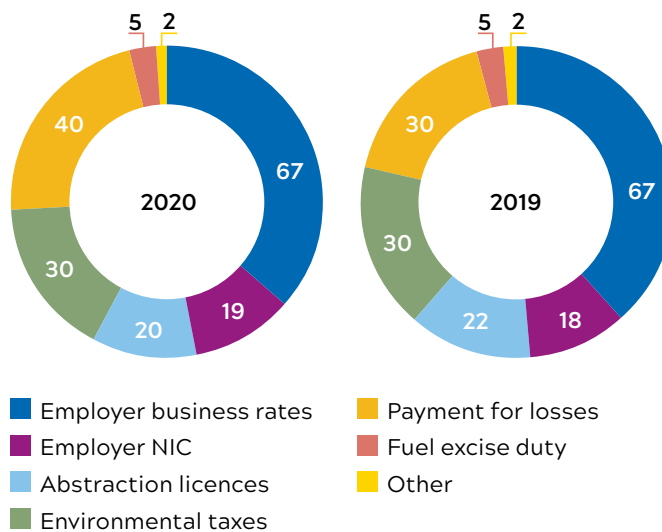
Our total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 2020 amounted to £270 million (2019: £256 million), of which £87 million was collected on behalf of the authorities for value-added tax (VAT) (£43 million) and employee payroll taxes (£44 million).

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

- business rates of £67 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax
- employment taxes of £63 million, including £44 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £19 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets
- VAT of £43 million collected and paid to HMRC. VAT has no material impact on profit before tax
- payments of £40 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to Anglian Water. This has no impact on profit before tax
- abstraction licences and direct discharges of £20 million. This is a direct cost to Anglian Water and reduces profit before tax
- fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- environmental taxes of £30 million charged to operating costs, reducing profit before tax.

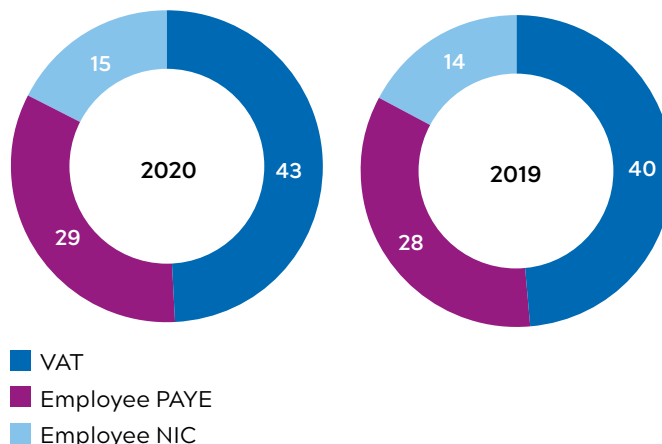
## Taxes incurred directly

Figures in £ million



## Taxes collected

Figures in £ million





# Our people: healthier, happier, 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:

- 'North Star' values framework created in partnership with colleagues
- Licence to Operate scheme cited as a benchmark by the Drinking Water Inspectorate
- Customer focus identified as a key strength of Anglian Water by 89 per cent of employees in 'Love to Listen' engagement survey
- Recognised by the Royal Society for the Prevention of Accidents (RoSPA) for the 16th consecutive year, winning the Gold award this year

## The values that drive our continued progress

### Together we...

 **Build trust** 

 **Do the right thing**

**Are always exploring** 

Working with our people, we have defined the values that will drive our continued success in the next AMP and beyond. Starting with a 'culture capture' exercise to listen and understand the qualities our people most value today and for the future, our front-line managers, Future Leaders Board and a range of employee representatives distilled these into our articulated values: Together, we build trust; We do the right thing; We are always exploring.

The values sit alongside our Purpose and mission as the guiding star we follow, and the standards we hold ourselves accountable to. They are supported by behaviours, also developed with input from our people, that define how the values show up in practice. The behaviours are embedded in our people processes – from recruitment and selection to performance management, recognition and development – ensuring we live our values in everything we do.



## Adapting to challenging times

The need to achieve significant savings to deliver our commitments within the funding provided by Ofwat in AMP7 led to difficult decisions that impacted our people. We took a range of actions to reduce operational costs, always with the scale of the challenge and fairness to our people in mind. These included significantly reducing spend on our employee-led recognition scheme; undertaking a field effectiveness review; introducing a recruitment freeze and restricting use of consultants. We are seeking to agree an affordable pay settlement that protects jobs and enables us to manage within the confines of the Final Determination; negotiations with our trade unions have been extended during the Covid-19 situation and we look forward to reaching agreement at the earliest opportunity.

These measures did not entirely bridge the operational funding gap, resulting in the need for headcount reduction. In doing this our priority was to protect our customers and our core business. The role reductions were managed through natural transition where possible, and we were able to protect the jobs of 98 per cent of our employees.

Throughout these changes we have been guided by our values and remained committed to our long-standing principles of supporting and developing our people, and providing an inclusive, collaborative culture where everyone is encouraged to be themselves and enabled to contribute to their full potential.

## Working in partnership

The voice of our employees is a core factor shaping the development and execution of our strategies. We encourage all of our people to take part in our continuing employee conversation, from regular consultation with our trade unions and Open House representative forum to two-way communication channels such as Front Line Manager events, 'LIFE' events focused on health, safety and wellbeing, our digital social platforms and a range of feedback routes.

Our latest Love to Listen employee survey took place in September 2019 with more than 5,500 employees taking part, including, for the first time, our @One alliance and colleagues from our Anglian Water Group businesses.

The survey showed that, at 89 per cent, our employees see our customer focus as our biggest strength, along with effective line management, flexibility and support for our people, and pride in working for a sustainable business. The feedback also enables us to prioritise areas for continuing progress, such as our investment in upgrading our systems, and the development of professional communities across the business to drive collaboration and support those in specialist roles.

Employee feedback also led to Anglian Water being named the UK's Best Company to Work For 2019 by Glassdoor, while Peter Simpson was named CEO of the year in the June 2019 Glassdoor top CEO report, with a 99 per cent approval rating.

In preparation for AMP7, over the past 18 months we have worked with leaders across the business to adapt our operating model, moving responsibility for asset investments from a central specialist function into our Water and Water Recycling business streams alongside our operations. This will ensure that investment decisions are taken collaboratively and as close to the customer as possible, to prioritise and deliver efficiencies in the challenging financial environment of AMP7.

## Sharing in performance

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

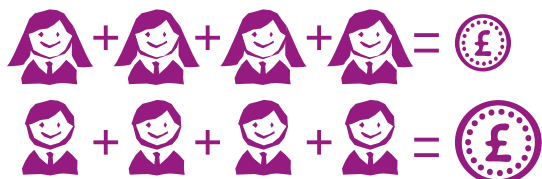
## Building the workforce of the future

Our Future Leaders Board, a group of high-potential employees established in December 2018 to bring challenge and fresh thinking, has led a number of initiatives to drive our continued progress on diversity and inclusion, supported by active sponsorship from our Directors. This includes the creation of a pan-alliance inclusion charter; a refresh of our Dignity at Work policy; participation in Inclusion Week; introducing gender-neutral titles for our customers; providing e-learning on unconscious bias; and continuing the conversation on inclusion through thought-provoking activities at events and team discussions.





We welcome job applications from all sectors of society and base selection decisions on applicants’ skills, experience and competence for the role, embedding flexible working practices for anyone with a disability, health condition or family responsibilities that affect how and when they work. Our gender pay gap improved, from a mean gap of 6.6 per cent in 2018 to 5.9 per cent in 2019, and from a median gap of 11.3 per cent in 2018 to 11.0 per cent in 2019. This continues to compare favourably with the national average mean and median gaps of 13.1 per cent and 12 per cent respectively.



**Mean gender pay gap:**

**5.9%** (2018: 6.6%)



**Median gender pay gap:**

**11.0%** (2018: 11.3%)

Our workforce, as with the rest of the water industry, remains male dominated at 68 per cent compared with 32 per cent female. This reflects both the high degree of loyalty and long service of our existing employees and the fact that among future workers, more males than females study the STEM subjects (science, technology, engineering and mathematics) that are core to many of our roles.

We continue to invest in building the balanced and highly skilled workforce of the future, from our apprentice and graduate programmes to continuing professional development and Licence to Operate training even for our most experienced people. In doing so we are mindful to encourage access across all sectors of the employee base.

For the first time, 2019 saw an all-female intake on our Accelerated Management Trainee programme with a cohort of six. The 12 leaders we are supporting through the Institute of Leadership & Management level 5 accreditation represent a varied cross-section of skills and business areas beyond traditional central functions, such as property management and electrical maintenance.

We hired 52 apprentices during the year, with a wide range of programmes from maintenance operations, engineering, water technicians and data analysts; and we celebrated the success of 30 apprentices who graduated from their programmes. These include Brianika Hewitt, a member of the Future Leaders Board and our first Leakage apprentice to graduate with distinction on the new level 3 standard. A number of our cohort have been well placed in the Apprentice of the Year awards, including Rosie Morris who reached the final of Young Pump Engineer of the Year.

As well as supporting those embarking on their careers we have development programmes for existing employees, with 24 people undertaking level 3 team leader training and seven following a master’s degree apprenticeship.

We remain the only water company to have our Licence to Operate scheme accredited against an external standard (ISO 17024). The scheme was cited as a benchmark standard by the Drinking Water Inspectorate, which carried out audits on technical training and competence across the water industry in July 2019.

**Drinking Water Inspectorate**

**“Anglian Water has a well-developed, resourced and embedded technical training and competence framework, which is given a high priority at all levels throughout the company and is externally accredited.”**

**Protecting our people**

We have taken an active approach to the Covid-19 coronavirus outbreak, providing regular updates and guidance to our people as soon as the first case was confirmed in the UK and mobilising our platinum incident management plan as the situation escalated; see [pages 10–11](#).

We continue to reinforce our commitment to wellbeing through our ‘Happier, Healthier, Safer’ strategy. It focuses on five clear outcomes:

- A healthier and safer work environment
- Positive engagement and collaboration
- High-risk activities managed
- Hazardous processes controlled
- Clear and simple safety information

The LIFE programme brings health, safety and wellbeing together, focusing on each of the five outcomes. Safer LIFE focuses on behavioural safety, Happier LIFE focuses on mental health and Healthier LIFE focuses on physical wellbeing, together creating a culture where it is everyone’s responsibility to care not only for their own wellbeing but also for that of their colleagues. Behavioural safety workshops known as LIFE Orientations have been held throughout the three years the programme has been





running; more than 7,000 people have attended to date. In February 2020 we invested in a series of LIFE stand-down events, bringing some 900 field-based operational employees together for a day focused entirely on health, safety and wellbeing. We also carried out a Health and Safety Climate survey completed by more than 2,000 colleagues, with significant improvements since the previous survey in 2016.

Collaboration and engagement has improved through our health, safety and wellbeing networks, which has seen safety innovation brought to life through our Dragon’s Den initiative, a forum to which colleagues bring ideas to solve health and safety issues. Best practice is also shared with our partners as we continue to collaborate and improve health and safety across all areas of the business.

Raising awareness of the support available for mental health has been a key focus, and to challenge ourselves we commissioned an independent review of our mental health

support services. The resulting report was positive about our existing provision and gave constructive pointers for further progress which we are now implementing.

We also continue to digitalise health and safety, with further development of our health and safety app to aid the front line and managers in reporting and tracking safety issues and capturing coaching visits on the active management app.

Health and safety performance is regularly monitored by the Board throughout the year. This year’s performance is largely stable, though we have seen improvements in some metrics.

We have maintained our ISO 45001 standard for health and safety following an extensive audit process and been recognised once again by RoSPA, achieving the Gold award for our health and safety performance, the 16th consecutive year of recognition.

Measure and target	2015/16	2016/17	2017/18	2018/19	2019/20
Category 1 events* -Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) reportable specified injury accidents - RIDDOR reportable non-worker/member of the public accidents - RIDDOR reportable (potentially life limiting) occupational diseases - Fatalities	7	3	10	5	4
Accident frequency rate (AFR) The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors	0.11	0.12	0.12	0.12	0.08
Sickness absence (target 5.0 days)	4.26	4.39	4.61	4.60	4.54

\* Last year, we 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 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.

## Running an ethical business

Our policies and processes are underpinned by our values. We encourage everyone to speak out about anything they see in the workplace that concerns them, either directly to line management, via our range of feedback channels or through our whistleblowing policy (detailed in our Audit Committee Report on [page 111](#)); and have procedures in place to deal with allegations of inappropriate behaviour.

We expect all employees, partners, agents and contractors to adopt a high standard of business ethics and 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 to address the risk of bribery and failure to prevent criminal facilitation of tax evasion, and set out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality, as well as political and charitable donations. All our people must comply with these policies and with the Bribery Act 2010 at all times. We require all our employees to complete online training, including anti-bribery, maintaining a level playing field (which deals with competition law risk) and data protection law, in line with the requirements of the General Data Protection Regulation (GDPR). We also take a zero-tolerance approach to modern slavery and human trafficking and have taken appropriate steps to ensure that it does not take place in our business or any part of our supply chain. Details of the procedures that we have put in place can be found in our Slavery and Human Trafficking Statement, available at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance).



# Positive impact on communities

Our activities have a broad impact on the communities we serve. We 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 social and environmental prosperity.

## Performance highlights:

- Enshrined commitment to our communities and our environment in our Articles of Association; the first major utility to do so
- Awarded the Queen’s Award for Enterprise: Sustainable Development for a second time
- Launched £1 million Positive Difference Fund in April 2020 to support front-line coronavirus relief in our communities (see [page 11](#))
- Raised more than £1 million for WaterAid for the second year running
- Our education programme reached more than 35,000 people during the year
- 2.5 million visitors enjoyed one or more of our seven water parks
- Lowestoft Place Board established to support regeneration of the town

## Community perception



Based on a survey of community perception

### Percentage of satisfied households

Target by 2019/20:	Actual:
<b>60%</b>	<b>56%</b>





Working to support and enhance our communities is a core part of our Purpose. We seek to make a positive social impact through our activity, from our day-to-day business decisions to long-term planning for the future. In April this year we were honoured to be awarded the Queen's Award for Enterprise: Sustainable Development 2020–2025 for the second time, a testament to the passion and hard work of all our people, who put our customers, communities and the environment at the heart of their decision making every day.

For more information on some of the programmes that led to this accolade, see 'Our Social Contract' ([page 14](#)), 'Six capitals thinking' ([page 15](#)) and the development of a Responsible Business standard ([page 13](#)).

## The value of place-making

Since 2013 we have worked in collaboration with Business in the Community, our alliance partners and others from the public and private sector to improve social prosperity in the Fenland town of Wisbech in Cambridgeshire. The regeneration of Wisbech has become a model for place-making, and we have been sharing our experience with Lowestoft in Suffolk, where exciting new regeneration plans are under way. This year Anglian Water Alliance partner Kier seconded a full-time business connector to support progress, and a Lowestoft Place Board was set up, which will now develop a Town Deal application. A successful 'Spotlight on Lowestoft' event was held in December with senior representatives from 19 organisations sharing their vision for the town. Work is under way with Access Community Trust to provide 20 mentors for people re-engaging with society.

## Transforming employment opportunities

In September 2019 we extended our successful pre-apprenticeship programme, sponsored with our alliance partners, to four colleges across our region. Its goal is to transform the education and employment opportunities available to local people in all four areas by establishing a bespoke training programme focused on the skills requirements of Anglian Water and its alliances. We measure its impact using the London Benchmarking Group framework. As a result of the course, 94 per cent of students\* are more motivated to build their own career, while 97 per cent of students\* have higher aspirations to achieve and feel more ambitious and determined to succeed.

## We love to help!

Over 500 people spent time volunteering as part of our year-long Love to Help employee volunteering drive, which concluded in July 2019. Teams and individuals across the Company volunteered more than 2,500 hours to improve the environment and support our communities. We're proud that 96 per cent of the charities we worked with felt Anglian Water cared about the community it serves\*, while 93 per cent of volunteers told us it had contributed positively to their wellbeing.

\*of those who returned surveys

## Our community ambassadors

Our community ambassadors are trained volunteers from across the Company who run interactive talks with community groups, sharing the key challenges we face and giving them the opportunity to feed in their views. In the last year, we have collected views from over 500 customers through this two-way communication; since the programme began we have spoken with more than 2,000.

## Our education programme

Our education programme has engaged with 481,166 people since it was established in 2007 (35,594 in 2019/2020), giving them opportunities to take part in exciting interactive sessions to enhance their understanding of the water cycle and our role within it. The programme focuses on behavioural and attitudinal change: this year 79 per cent of children surveyed reported a positive change in their behaviour or attitude as a result (measured using the London Benchmarking Group framework), and 100 per cent of the evaluations from teachers and students rate our programme as good or outstanding.

## WaterAid

As well as working to support communities in the East of England, Anglian Water continues to provide support to WaterAid, which transforms lives by improving access to clean water, decent toilets and good hygiene in the world's poorest communities. A particular focus is the Beacon Project in Nepal, a unique collaborative programme led by Anglian Water with WaterAid, alliance partners and others to bring safe, clean water to the people of Lahan. During the year, Anglian Water Group donated £40,000 to WaterAid and actively encouraged employees to get involved with fundraising through a number of initiatives, including quizzes, raffles, cake bakes and the ongoing monthly WaterAid lottery and Payroll giving.

Volunteering for WaterAid is a key part of Anglian Water's employee volunteering programme. Our WaterAid Volunteers' Committee successfully fundraised an additional £1,366,274 for WaterAid (2019: £1,060,927) raising over £1 million for WaterAid in a single year for the second time.

## Water parks for communities to enjoy

Our seven water parks play an important role in conserving and enhancing our region's natural riches while providing a wonderful resource for the public. More than two and a half million visitors a year come to visit our 4,428 hectares of parkland, woodland, nature reserves and water at Rutland, Grafham, Alton, Pitsford and Hollowell Water, Ravensthorpe Reservoir and Taverham Mill Nature Reserve. This year all seven parks retained Green Flag status, the benchmark standard for the management of recreational outdoor spaces across the UK.

This year we have opened a new water sports centre at Alton Water which has enabled us to deliver a broad range of facilities for our visitors.



# Resilience, risk management and business viability statement

Customers expect us to provide a reliable, high-quality service, whatever happens. So resilience has been an important part of our planning and operations for a long time. 'Resilient business' is one of the 10 core outcomes we agreed with customers in 2013, and we have set ourselves the long-term ambition to make the East of England resilient to the risks of drought and flooding.

## Covid-19

The risk of a pandemic has been on our corporate risk register for many years, and we have robust plans in place to deal with a range of threats. We were able to instigate our emergency response arrangements and introduce new ways of working to preserving critical services for customers while protecting the health and wellbeing of our staff. We know that the effects of Covid-19 will be felt for months and potentially many years after the spread of the virus has been brought under control.

While the full impact of the social distancing measures and associated economic impact has yet to be understood, the full impact on risk to the business, our customers, and the environment is continually being reviewed during this crisis. See 'Organising Anglian Water for Covid-19', [pages 10–11](#).

## PR19 – CMA

We are also facing a significant financial challenge as a result of the Final Determination awarded by our regulator Ofwat in December 2019 for the period 2020–2025.

The Business Plan we submitted for Price Review 2019 (PR19) is our most ambitious yet. Guided by the views of 500,000 of our customers, we proposed to invest £6.5 billion to safeguard the long-term resilience of water supplies across our region in the face of climate change and rapid population growth. The Final Determination awarded in December leaves us £744 million short of the funding required to deliver those plans, meaning that in some instances we must adopt short-term, sub-optimal solutions rather than tackling issues head on, for the long term, as we and our customers agreed that we should. See CEO statement, [pages 8–9](#).

## Resilience

Ofwat's resilience duty (introduced in 2014) focuses on the need to ensure that companies take steps to enable them, in the long term, to meet the need for water supplies and wastewater services. Ofwat has subsequently expanded its definition of resilience to mean 'the ability to cope with, and recover from, disruption and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future' (Ofwat, 2017, *Resilience in the Round*).

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

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

We look at resilience 'in the round' for business continuity purposes, which recommends that customers should be the focus of the business and three themes of resilience should be considered:

- **Corporate resilience:** the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in its business operations.
- **Financial resilience:** an organisation's ability to avoid, cope with and recover from disruption to its finances.
- **Operational resilience:** the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with and recover from disruption in its ability to provide critical services to customers. We are constantly developing our resilience approach to ensure robust systems thinking and have incorporated our Resilience Systems Thinking into our AMP7 Business Plan.

All three elements of 'resilience in the round' are currently under stress due to the Covid-19 outbreak, with risk controls supporting the business in responding to the increased risk; for example, our extensive emergency planning to maintain services, our high level of customer service and programmes that aim to support vulnerable customers, and our aligned corporate governance, from the Board down through the business.





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

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

We manage risk across our business through a number of formal and informal processes. These risk management processes sit within our overall governance framework, which includes clear accountabilities, delegated authority

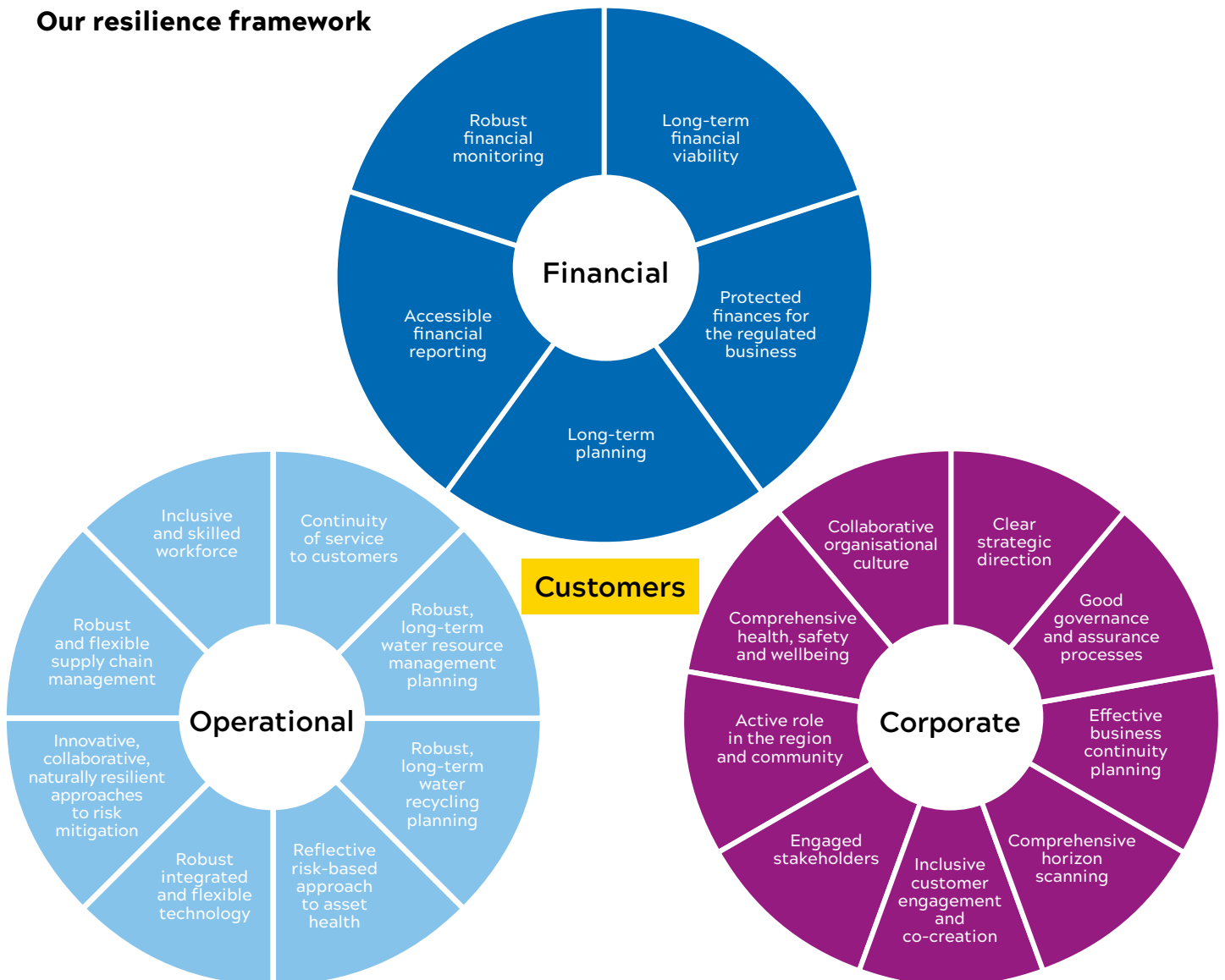
limits and well-defined policies and procedures that govern employee conduct.

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

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

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

## Our resilience framework





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

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

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

### Risk appetite

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

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

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

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

Anglian Water continues to ensure compliance with the Anglian Water Services Corporate Governance Code, which was revised in 2019. Further information can be found in the Corporate Governance Report on [page 101](#).

## Our management system framework policy

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



### CUSTOMER

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



### WATER QUALITY

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



### ENVIRONMENT

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



### ASSET MANAGEMENT

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



### RESILIENCE

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

## Our Health and Safety Charter

Nothing is so important that we cannot take the time to do it safely. We are committed to the principle that all accidents and harm are preventable. We will never knowingly walk past an unsafe act or condition.

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



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

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



Peter Simpson  
Chief Executive Officer



## WE ARE COMMITTED TO:

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

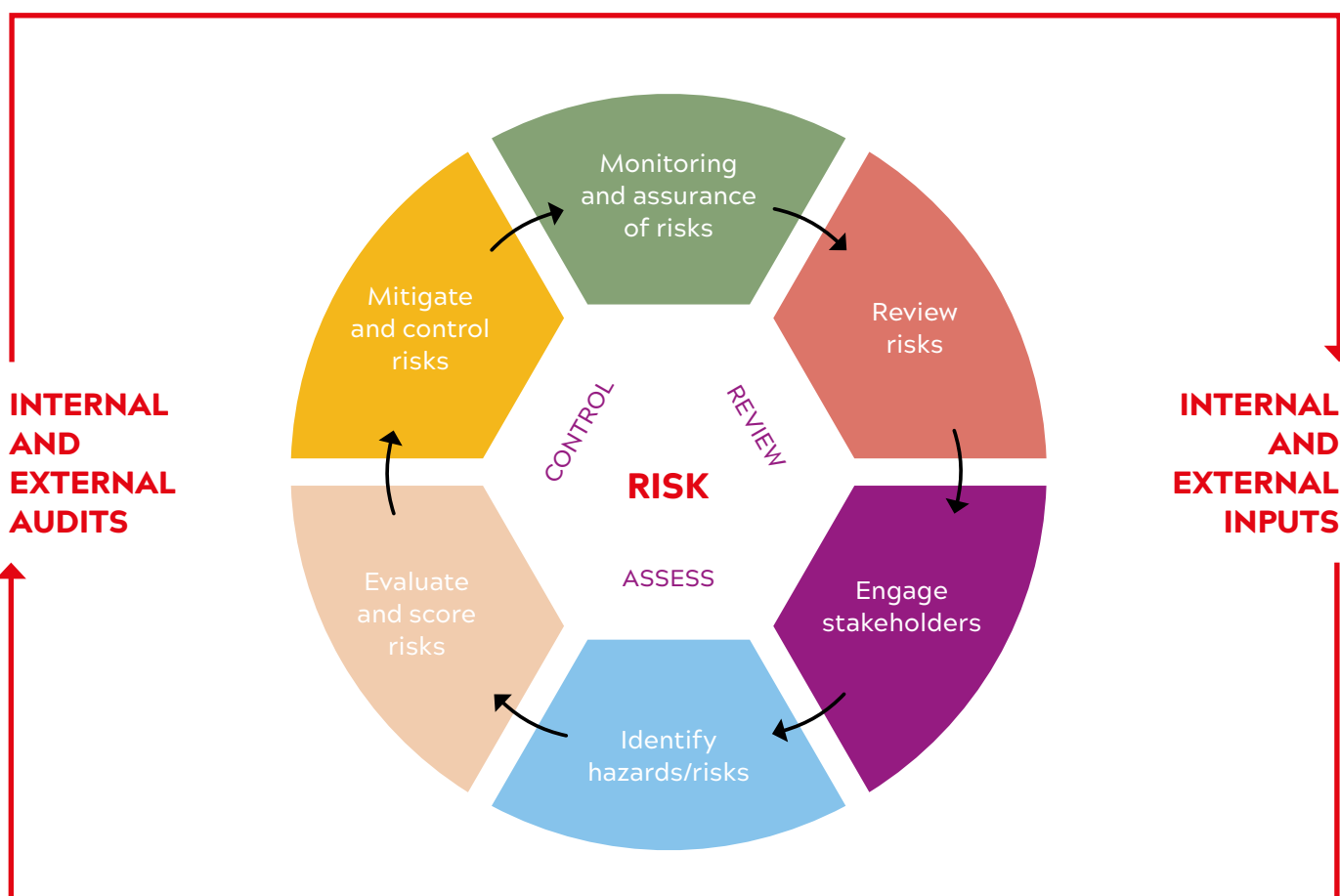
## WE WILL:

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



## Risk management process

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



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

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

Management also considers new, changing or emerging risks. Through a process of review and discussion, we have developed a methodology for setting an appropriate target position for each principal risk. Where the existing level of risk is assessed as not meeting the target, additional controls or mitigating measures are identified in order to reduce the risk to the target level. This is formally recorded in the top-tier risk register referred to on [page 74](#). In addition, we link the principal risks to our assurance plan to ensure our focus is on the most significant risks.

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



## Principal risks

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

**Currently both the PR19 Price Review process (which has been referred to the CMA) and the Covid-19 pandemic are significant risks to the business and likely to impact its longer-term strategy.**

In this section we describe the Company’s principal risks, splitting out those most impacted by the Covid-19 pandemic. The Price Determination will increase the challenge to manage across most of the principal risks.

### Key Covid-19 impacted principal risks:

- Political, regulatory and legislative changes
- Financing our business
- Pensions
- Regional growth
- Preparing for AMP7
- Health and safety

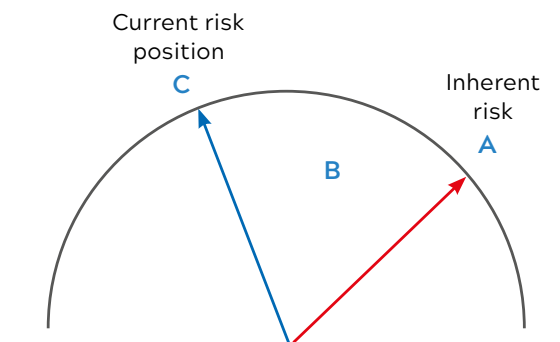
### Other principal risks include:

- Long-term supply-demand resilience and climate change
- Pollutions
- Brexit
- Customer satisfaction
- Talent and succession
- Cyber security
- Water quality

## Key

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

- A** An indication of the direction of the inherent risk – i.e. worsening/improving over the past year
- B** Status of the actions to control the risks
- C** Status of current risk position



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

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

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

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

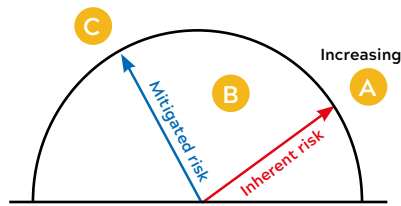
Only risks with a ‘red’ indicator will be reported as being representative of significant failings and areas of concern.

We also rank inherent risks as ‘red’, ‘amber’ or ‘green’ to reflect the severity of the potential impact of the unmitigated risk.





## Political, regulatory and legislative changes



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

Water companies have continued to be under the national spotlight in an environment where a set of complex social, political and environmental challenges are moving higher up the political agenda. Despite a change in leadership, the Labour Party remains committed to bringing water companies back into public ownership. We also believe that Ofwat’s focus on low customer bills for AMP7 (delivered in part by the lowest ever cost of capital) at the expense of longer-term investment in infrastructure and the environment illustrates the impact that can result from the pursuit of a clear regulatory agenda.

In February 2020, the Board of Anglian Water requested that Ofwat refer our Final Determination to the Competition and Markets Authority (CMA), see [page 27](#).

The level of political and regulatory uncertainty that has resulted in the CMA referral means we see this range of risks, if unmitigated, as Amber.

### (B) CONTROLS AND MITIGATION (AMBER)

At the heart of our mitigation of these risks is to request a redetermination the Final Determination, and our Statement of Case submitted to the CMA outlines our arguments.

Supporting our case is our delivery of the best-in-sector business performance in 2019/20 according to Ofwat’s company performance analysis; complying with our obligations; focusing on long-term planning; and enhancing resilience to protect our environment and our services to our customers in the future.

We have also developed, at a sector-wide level, a Public Interest Commitment and we changed our Articles of Association in July 2019 (see [page 27](#)).

We also ensure compliance with current legislation, influence the shape of new policy and forthcoming legislation and monitor the potential impacts of new legislation. To manage compliance, we have numerous business controls and processes, including a legal risk register, as well as our online training system, which we have used to ensure adequate awareness across the business of the risks associated with breaches of legislation such as the Competition Act, Data Protection Act and Bribery Act.

We continue to make improvements in our policies, processes and systems which are designed to ensure that we comply with the requirements of the General Data Protection Regulation (GDPR). In May 2020, a newly appointed Privacy Manager joined the business. His responsibilities include reviewing our existing compliance activities and recommending improvements where appropriate. The business routinely undertakes privacy impact assessments to ensure our processes and systems are compliant. This is of particular importance for any activity that processes personal data.

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, 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.

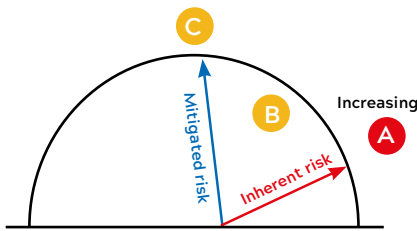
### (C) CURRENT RISK ASSESSMENT (AMBER)

We assess our current risk position to be Amber given that we have started the CMA redetermination process and in light of the associated impact of Covid-19 and the management challenges this creates. However, on all other areas, our risk assessment is Green, as we have confidence in the relevant business controls to ensure legislative compliance.

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 (RED)

A risk for any business is that it cannot finance its operations in both the short and long term. Our Business Plan, submitted as part of the PR19 Price Review, outlined a plan that was financeable and that was supported by our customers. The Final Determination awarded in December leaves us £744 million short of the totex allowance required to deliver those plans, meaning that in some instances we must adopt short-term, sub-optimal solutions rather than tackling issues head on, for the long term, as we and our customers agreed that we should.

We have been placed on negative watch by certain ratings agencies while the CMA process is followed. In addition, the increased risk of the impact on Covid-19 on our domestic customers and commercial

businesses will continue to be monitored and the associated revenue and cash impacts managed.

As we embark on delivering AMP7, we are impacted by the social distancing measures, increased costs and delays in starting delivery of many key initiatives and capital schemes.

Given the level of economic uncertainty, if left unmitigated this risk would have significant impact on our business – hence the unmitigated risk is classed as Red.

### (B) CONTROLS AND MITIGATION (AMBER)

We have responded to these challenges, firstly by requesting that Ofwat refer the Final Determination to the CMA. As part of our final Business Plan, we also committed to reduce shareholder dividends and reduce the level of gearing across AMP7.

It is critical that we have robust financing and liquidity management arrangements in place, something that is underpinning our ability to respond to the Covid-19 impacts. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. Our debt comprises long-term public and private bonds and other debt instruments, with equity (shares) financing the remainder of our regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are linked to inflation (the Retail Price Index and Consumer Price

Index), fixed nominal levels or variable nominal rates in accordance with the Board-approved Treasury Policy.

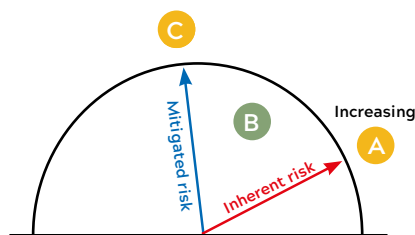
Net debt accounts for approximately 78.4 per cent of our regulatory capital value as at 31 March 2020, as measured in our financial covenants agreed with our debt providers. The debt-funding structure was established in 2002. Our focus is on maintaining stable credit ratings and a strong liquidity and 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 (AMBER)

The decisive Board and shareholder action has enhanced our financial robustness through significantly reducing dividends and reducing gearing. We will continue to monitor and take actions to manage the impact of Covid-19 on the business, and we will also test and audit compliance with legislation as well as our finance contracts to maintain a strong level of assurance and to highlight any areas requiring action.



## Pensions



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

The risk is that the funding levels in the Anglian Water Group Pension Scheme (AWGPS) deteriorate, requiring Anglian Water to inject additional funds. The last triennial valuation was on 31 March 2017, and we agreed a revised funding plan with the Trustees that continues through to 2026. The next triennial valuation is due on 31 March 2020 and we expect to spend much of this financial year agreeing this with our Pension Fund Trustee and their advisors. Due to continuing low interest rates and gilt returns, the deficit remains at risk, particularly with the volatility in the financial markets being caused by Brexit and now Covid-19. However, the risk has been mitigated as the pension scheme is no longer open to future accruals. No additional years of service are now being added to the pension liability. The liability continues to be subject to risks such as lower investment returns, high inflation, low discount rates and longevity.

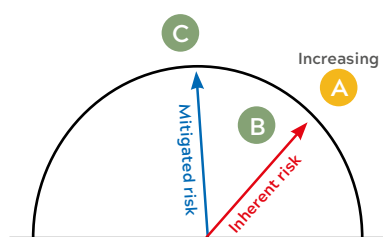
### (B) CONTROLS AND MITIGATION (GREEN)

Following an extensive consultation with our employees, employee representatives and Trustees, the AWGPS was closed to future accrual from 1 April 2018. A deficit recovery plan was agreed with the Trustees and work is under way to mitigate further risks, such as volatility caused by higher levels of inflation and lower levels of interest rates. The Strategic Pensions Group agrees and monitors 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 (AMBER)

Over the past year this risk had initially stabilised due to actions taken but the extreme volatility seen in financial markets at the end of March was unprecedented. We will continue to monitor market conditions during and after the impact on the economy of Covid-19.

## Regional growth



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

With the Anglian region one of the fastest growing in the UK, managing the forecast rise in population is one of our most significant long-term challenges. With continued Government commitment to meeting housing need during and post Covid-19, understanding and responding to the demand for new services remains a key area of focus for the business.

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 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)

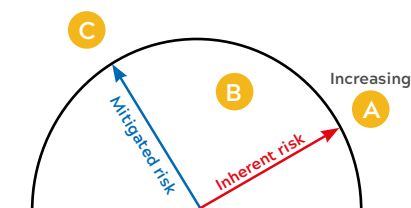
Current growth in our region is in line with AMP7 plans. As part of our CMA referral, we are challenging the assumptions around how growth is forecast and treated in PR19. While this growth may be impacted by Covid-19, the longer-term demand for housing in our region will remain.

### (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.



## Long-term supply and climate change



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

### (B) CONTROLS AND MITIGATION (AMBER)

We have been assessing the impact of climate change on water resources since the 1990s. The primary way in which we manage this risk is through the statutory Water Resource Management Plan and Drought Plan.

See ‘Towards net zero carbon’, pages 38–39, and ‘Securing supplies sustainably’, pages 40–41.

This year Anglian Water published its draft Climate Change Adaptation Report for consultation. This is the third Adaptation Report that we have published under the Adaptation Reporting Power set out in the Climate Change Act 2008. Its purpose is to describe how we are embedding adaptation across our business and to contribute to government understanding of our level of preparedness for climate change, and feed into the Committee on Climate Change’s reports to Parliament. It outlines the key risks we have identified, including physical risks from drought and flooding and risks to our region’s natural capital.

Leadership on climate change adaptation continues to be provided by our Climate Change Steering Group working alongside our Resilience Steering Group. This year our Chief Executive Officer became Co-Chair of the Prince of Wales’s UK Corporate Leaders Group, whose members are providing business leadership for a resilient, climate-neutral economy.

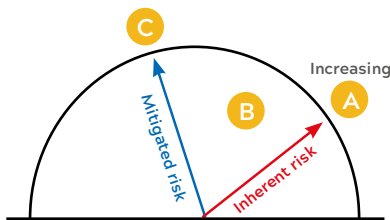
### (C) CURRENT RISK ASSESSMENT (AMBER)

Severe weather is placing an increasing challenge on our ability to provide a service to our customers and the environment. This year we again saw the benefit of previous investment, collaboration and resilience planning. For example, in June 2019 nearly two months’ worth of rain fell in two days in Lincolnshire. Wainfleet was particularly badly affected, with nearly 600 homes evacuated due to the River Steeping bursting its banks into the town. The breach in the river bank inundated our water recycling centre and network. To recover our service we worked closely with the Local Resilience Forum and the Lincolnshire County Emergency Centre multi-agency response. Despite the extreme nature of the flooding in Wainfleet, our assets continued to function once access and power were restored. A month later, on 25 July 2019, the Met Office confirmed a temperature of 38.7°C in our region. This reading, taken at the Cambridge Botanical Gardens, was the highest ever temperature officially recorded in the UK. Services to customers were maintained during this peak summer period – as they had been in the previous summer, which was itself the hottest on record for England.





## Preparing for AMP7



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

This risk relates to the ability of the Company to deliver our Business Plan. Our Statement of Case outlines where we feel our ability to deliver our AMP7 Business Plan is impacted by the Final Determination. The Final Determination awarded in December leaves us £744 million short of the funding required to deliver those plans, meaning that in some instances we must adopt short-term, sub-optimal solutions rather than tackling issues head on, for the long term, as we and our customers agreed that we should.

### (B) CONTROLS AND MITIGATION (AMBER)

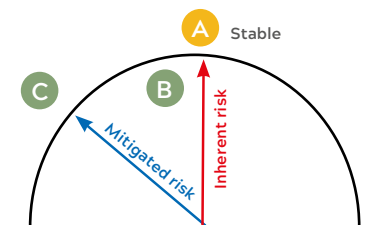
While the CMA process is under way, our plans have been to develop a delivery plan for AMP7 that reflects delivery around the available funding, especially in the first year.

Our outcomes reflect customer priorities, which are based on high-quality valuation and cost evidence, and also 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. However, our delivery plans are further impacted by the social distancing measures in place, which are delaying the start of key programmes in AMP7. This will have a knock-on effect on the performance measures associated with ODIs in the Final Determination.

### (C) CURRENT RISK ASSESSMENT (AMBER)

We have set out our plans to deliver our Business Plan; however, we expect the Covid-19 pandemic to impact the first year of delivery with a knock-on for subsequent years. We have also laid out our concerns relating to ODI targets in our Statement of Case as part of the CMA process.

## Pollution



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

Leaks, spills and escapes from our water recycling assets, combined with the overall serviceability of the infrastructure, have the potential to cause pollution, damaging or endangering the natural environment. Such incidents are categorised by the Environment Agency (EA) and,

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

### (B) CONTROLS AND MITIGATION (GREEN)

Anglian Water has set a goal to drive down the number and severity of pollutions. All incidents and the associated response, mitigation and preventative actions are reported to and monitored by senior management. We have a wide programme of activities to reduce pollution incidents and improve our understanding of their causes.

This includes:

- investment on planned preventative maintenance to reduce blockages and consequent pollutions
- a priority ‘blue light’, or fast response, for areas with historical pollution risk and/or significant environmental sensitivity
- ongoing investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal
- continuing to enhance our systems to achieve real-time monitoring and reporting of pollution incidents, to provide a one-stop shop for pollution information and analytics to support targeted investment
- aligning our internal processes and procedures to meet changes to Environment Agency guidance
- extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident



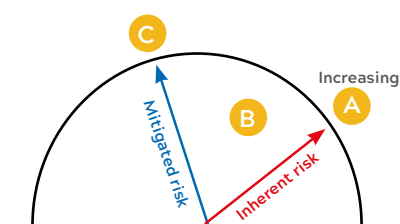
- making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets
- investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations

- continuing to work on improving our self-reporting of potential pollution events to the Environment Agency by getting the right information from the field quickly, utilising our telemetry systems to make an assessment of probability and working to improve our monitoring and handling of events.

**(C) CURRENT RISK ASSESSMENT (GREEN)**

We made good progress over the past year in reducing pollutions; while we saw a slight increase during 2019/20 (due to the hot summer and winter storms), we are still well within our key targets and will continue to look to improve our performance for both our water and our water recycling assets.

**Brexit**



Outcomes affected by this risk:



- restricted access to EU labour markets. At present, Anglian Water's exposure to this risk is low in terms of the number of our directly employed workforce originating from the EU. The skills shortage facing Anglian Water owes more to an ageing workforce rather than a migrant workforce. However, there will likely be restrictions on future labour market access
- Compounded impact on the economy of the implications of a trade deal while the economy recovers from the pandemic.

Community Education team, as we seek to address the skills gap with home-grown talent. Additionally, our graduate and apprenticeship programmes are expanding to meet the skills challenge

- demonstrating Anglian Water's leadership as a responsible business. In addition to recent accolades, Anglian Water is at the heart of industry-wide efforts to improve public perceptions of the water sector, to ensure that it operates in the public interest.

Elsewhere, we have established a Brexit sub-group that brings together business leaders to coordinate our preparations, particularly for a no-deal scenario. Steps taken have included increasing baseline stocks of key parts and materials, diversifying our supply chain, altering operational practices where possible, and increasing storage space and security. This group meets regularly and feeds into the Water UK-led group that is working with the Department for Environment, Food and Rural Affairs (Defra) to ensure business continuity. These actions have helped create resilience during the Covid-19 pandemic.

**(A) UNMITIGATED RISK DESCRIPTION (AMBER)**

The UK exited the European Union on 31 January 2020. The transition period is due to end on 31 December 2020. However, ongoing negotiations may be affected by the current Covid-19 pandemic. If a trade deal is not successfully negotiated, there is potential for the business to be impacted, including:

- implications for the supply chain, including increased costs if there are new tariffs on goods (such as chemicals, parts and materials), and delays from customs checks and duties

**(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. We continue to engage with politicians and policymakers to ensure we establish Anglian Water as an influential stakeholder and that our risks and priorities are understood.

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

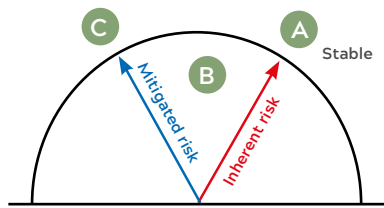
- becoming the first public utility to issue Green Bonds to finance our portfolio of capital projects. This offers a new avenue of finance on terms not dissimilar to those offered by the European Investment Bank
- our involvement in the regional skills agenda continues to grow, through the Greater Peterborough University Technical College, the College of West Anglia and our own

**(C) CURRENT RISK ASSESSMENT (AMBER)**

This risk remains Amber as we continue to plan for possible trade deal impacts on our supply chain.



## Customer satisfaction



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (GREEN)

The Customer Measure of Experience (CMEx) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. CMEx comprises two survey elements: Customer Experience Survey – a customer satisfaction survey among a random sample of the water company’s customers; and Customer Service Survey – a customer satisfaction survey among a random sample of those who have contacted their water company. Our success depends on customers and stakeholders thinking highly of us following any interaction and on those customers who have not contacted us but have an impression of Anglian Water as their service provider. Our brand and marketing campaigns such as Keep It Clear,

Water Efficiency and proactive service notifications are some of the areas that we rely on to help improve our overall reputation. Unwanted media attention – from print, broadcast or social media – has the potential to damage our reputation and erode that trust. At the same time, we will also be judged by our customers, who compare our service with that of the top UK brands. They expect us to be as good, if not better. So there is also a reputational risk in failing to keep pace with growing customer expectations, hence our continued and extensive investment to ensure a good customer experience.

### (B) CONTROLS AND MITIGATION (GREEN)

Delivery of AMP6 and our customer outcomes has been critical in maintaining our reputation, and our performance over recent years has helped minimise the impact of this risk, avoiding poor publicity and building on the positive work we carry out across communities and the environment. It is important that our senior managers and others in key roles around the business are confident and well informed when speaking to the media and in getting our messages across. We have a media training programme in place for Executive Directors and others responsible for the day-to-day operation of the business. We carry out daily monitoring of both traditional and social media to identify corporate, industry and brand-related issues of interest. This includes issues of wider interest to the business in broader areas

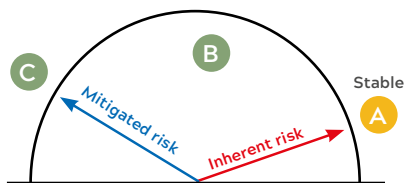
of public policy. Press cuttings are circulated under licence to selected Directors and senior managers, and we work more generally to raise awareness of the impact media coverage can have and of the need for early alerts to highlight sensitive or high-risk issues. Daily monitoring of individual customer interactions with us is also undertaken in order to understand emerging themes and issues and take mitigating actions. We will undertake ‘mirror’ weekly customer satisfaction and monthly experience surveys to gather and closely understand our customers’ thoughts and feedback. This will feed into our service design reviews and process improvements. We are also continuing to invest in new IT systems and training to ensure customers only need to contact us once to resolve a problem and that we respond ever more quickly to meet their needs.

### (C) CURRENT RISK ASSESSMENT (GREEN)

We are satisfied with our current risk position, with necessary actions and controls in place. Many elements will build on the plans we have this year, putting the customer at the heart of what we do and building a strong and efficient business where our people feel empowered and inspired by where they work. We have implemented a new operating model review in order to set ourselves up for AMP7 from 2020 and beyond, including new challenges and opportunities such as our customer affordability and vulnerability strategies and smart metering.



## Health and safety



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

### (B) CONTROLS AND MITIGATION (GREEN)

The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' safety and believe that work should have a positive impact on their health and wellbeing. Health and

safety is a key performance indicator in the business. The Management Board reviews health and safety performance and associated actions monthly, including thoroughly reviewing all significant incidents as well as reporting them to the Board. An in-depth review into health and safety performance is also carried out on a quarterly basis. Performance is further monitored through our ISO 45001-certified Safe and Well management system, with six-monthly external reviews by Lloyd's Register as well as through our internal audit programme.

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

Underpinning our approach is LIFE, a philosophy that brings health, safety and wellbeing together and reflects our vision of healthier, happier and safer employees. LIFE is about moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. It creates a culture of care and concern where we look out for each other, build strong relationships with good conversations and support making the right choices, not just at work. LIFE is a long-term commitment; this year we have run numerous health and wellbeing campaigns focusing on mental health

– helping to break the stigma, raising awareness and piloting a mental health awareness course – and also physical health, with a big campaign focused on musculoskeletal health. We have also held LIFE orientation sessions, which more than 7,000 people, including personnel from our alliance partners, have attended, focusing on the safety element. We also organised a series of stand-down events focusing on our front-line operational staff, which focused on behavioural safety, mental health and emergency first aid including CPR and defibrillator training.

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

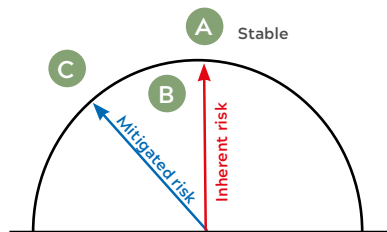
### (C) CURRENT RISK ASSESSMENT (GREEN)

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





## Talent and succession



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (GREEN)

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

composition of the Board could destabilise its effective functioning and the relationships between executive management, Non-Executive Directors and shareholders.

### (B) CONTROLS AND MITIGATION (GREEN)

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

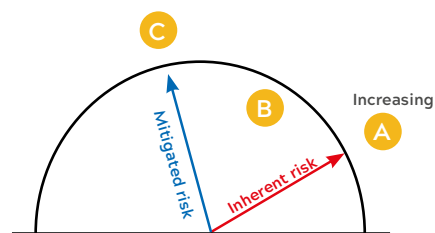
Extensive development programmes are in place, building future talent at graduate, middle and senior management levels, and we continue to invest in career development support for graduates and apprentices to maximise retention and progression. There is also a Diversity Action Plan in place to keep the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

Pension freedoms and the publicity around them may mean that more experienced members of staff with specialist knowledge may consider early or partial retirement. A proactive approach to identifying those staff has been undertaken, and succession plans are well advanced to mitigate any impact this may have. Executive management carries out regular and formal reviews of our succession-planning process and talent pipelines, using external advisors where appropriate. We have a range of approaches to support the development of senior managers and those employees with key skills and talent, including non-financial retention arrangements, such as active development plans and training, as well as Long-Term Incentive Plan (LTIP) and bonus schemes.

### (C) CURRENT RISK ASSESSMENT (GREEN)

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

## Cyber security



Outcomes affected by this risk:



### (A) UNMITIGATED RISK DESCRIPTION (AMBER)

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

### (B) CONTROLS AND MITIGATION (AMBER)

We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular

reviews by external experts who assess both the suitability and the effectiveness of these controls, this provides assurance that we have the right measures in place to counter the threats we face.

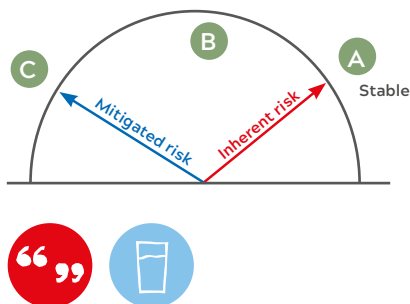
In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. We continue to operate and strengthen our security operations centre, managed by Airbus, to ensure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

### (C) CURRENT RISK ASSESSMENT (AMBER)

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



## Water quality



### (A) UNMITIGATED RISK DESCRIPTION (GREEN)

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

### (B) CONTROLS AND MITIGATION (GREEN)

We have a mature Drinking Water Safety Planning approach that meets regulatory requirements, underpinned by our extremely robust Policies and Standards for Water Supply Hygiene. These ensure that we manage water

quality from source – through our water treatment works and water storage points – and in our network of pipes into customers’ premises. We have delivered a significant AMP6 capital maintenance and quality enhancement programme to ensure we maintain and improve our drinking water quality and received full support from the Drinking Water Inspectorate (DWI) for our PR19 quality enhancement programme.

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

In addition, our senior manager-led Water Services Compliance Monitoring Group and Water Quality and Environmental Compliance Group regularly review performance against key water quality parameters. Our

Board of Directors also regularly reviews key targets and quality standards.

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

We also ensure that operational and scientific employees are trained and assessed as competent. Our industry-leading Licence to Operate programme sets benchmarks and expectations for competency and is being further enhanced by a drive towards professional registration such as chartership through professional bodies, including the Institute of Water. The Water Services Competent Operator Scheme has recently been certificated to ISO 17024 Certification of Personnel.

### (C) CURRENT RISK ASSESSMENT (GREEN)

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



# Long-term viability statement

## Background

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

The Directors' review of the longer-term prospects and 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 that our operations are resilient and our finances are sustainable and robust.

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

## 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 the basis for future tariffs, revenues, costs and cash flows over the current AMP (April 2020 to March 2025). We note, however, that we did not accept the PR19 Final Determination and Ofwat has referred it to the Competition and Markets Authority (CMA) at the request of the Board of Directors. The CMA will complete its determination by March 2021. In the interim period we are using the Final Determination in our assessment of viability.

## Assessment of prospects

The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2020 to March 2030. A 10-year period has been chosen to ensure that our Business Plan for the current AMP does not impact on the longer-term viability of the Company:

- The first five years takes us to the end of the current AMP, for which there is reasonable certainty and clarity (pending the CMA appeal), with a stretching five-year plan to deliver in line with the Final Determination allowing realistic assessments of our principal risks to be made.
- The next five years of the period are outside the current AMP and therefore subject to the final outcome of the following five-year price review (PR24), for which uncertainty exists. Our assumptions for AMP8 align to the AMP8 forecasts submitted in our PR19 Business Plan submission.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios.
- The Board has considered the impact of the wider activities of other Group companies and transactions and of the overall Group structure.
- The Board considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.
- 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 PR19 weighted average cost of capital (WACC) rate and the significant gap between required and allowed total expenditure (totex), we have had to take mitigating action in our planning, resulting in substantial reductions in dividends paid to shareholders in order to achieve financial resilience. Finally, we take note of the Water Industry Act, which requires Ofwat to ensure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.



## Principal risks

We have set out the details of the principal risks facing our Company on [pages 77 to 87](#), 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 76 to 77](#).

The Directors regularly review business plans that show projected cash flows for the current AMP period, and long-term cash flow modelling projections that extend into AMP8 and beyond. This includes reviewing the expected outcome relating to the principal risks with this impact included in our business plans.

## 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 downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they pose the greatest risk to the business. The following scenarios have been used individually and in combination to model the impact on the overall performance of the business, the ability of the business to service its debt and the impact on its credit rating:

Scenario	Impact modelled	Potential mitigations required
Material totex underperformance against the Final Determination allowance	Overspend of 10 per cent across an AMP	Reduced dividends and/or equity injection
Material Outcome Delivery Incentive (ODI) penalties	Up to £50 million applied in a single year	No mitigations required
Regulatory fines and legal penalties	Up to 3 per cent of turnover applied in a single year	No mitigations required
Unfunded pension liabilities and potential cost impacts of Brexit	Up to £15 million applied per annum	No mitigations required
Risks associated with the disruption caused by Covid-19, potential reductions in revenue collection	Up to 7 per cent decrease in cash collection	Cost base reduction, reduction in financing costs
The potential impact of credit rating agencies downgrading the debt for any companies in the Group	2 per cent increase in cost of new debt	No mitigations required
Cost of debt increases	2 per cent above base level assumptions across an AMP	No mitigations required
Significant inflation fluctuations	1 per cent above and below base level assumptions for each AMP	No mitigations required
Combined scenario based on totex underperformance for a whole AMP, along with a significant ODI penalty	Overspend of operating costs of £15 million per annum and £50 million ODI penalty in a single year	Reduced dividends and/or equity injection
Combined scenario based on totex underperformance and lower inflation	Overspend of totex by 2.8 per cent over AMP combined with inflation 1 per cent below base	No mitigations required





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

## Mitigating actions

For each sensitivity and combined scenario, we identify the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the Company's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the Company's cost base or reduce financing costs. Evidence of the shareholders' support for equity injections is provided by the equity injection made in 2018 of £22.0 million, and the fact that our AMP7 five-year Business Plan includes further equity injections in order to reduce our gearing. Another example of shareholder support occurred in 2009 when the shareholders provided funds of £90 million in order to improve headroom in near-term debt covenants.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios such as dam failure, pluvial and fluvial flood, terrorism, and public and employer's liability.

There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim; however, it is an important consideration in terms of medium-term liquidity.

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

## 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 by which we are governed. We announced in March 2018 that we expect to see a significant reduction in dividends to reduce leverage in Anglian Water; the Company's approach to de-gearing will be reviewed in the light of the CMA's decision which is expected no later than March 2021.

## Assurance

Robust internal assurance is provided by the Board reviewing and challenging the stress test scenarios selected and the risk mitigation strategies. The Directors also obtain annual independent third-party assurance on the integrity of the long-term cash flow model which underpins the financial projections. In addition, our external auditor, Deloitte, reviews this viability statement and the outputs of our stress testing as part of its normal audit procedures. It considers whether these are consistent with the Directors' conclusion with respect to business viability, and if the processes undertaken are sufficient to support the statements made.



## Directors' statement

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

Ofwat published its PR19 Final Determination in December 2019. This will form the basis for setting customer charges in 2020/21. Funding for the remaining years of AMP7 will be set by the CMA redetermination.

Ofwat's Final Determination included a reduced cost of capital, which will be a significant challenge to our financeability in AMP7 with headroom to accommodate moderate to severe downside shocks limited for the period under assessment. While the viability of the business is not significantly affected, the number of downside scenarios requiring mitigations has increased. This impact is primarily as a result of the PR19 Final Determination and therefore this is one of the reasons why we requested that Ofwat refer the Final Determination to the CMA.

However, Anglian Water Services is an efficient company with a history of outperformance and we would expect the CMA to reach a determination that is financeable and meets both the respective obligations and responsibilities of the Company and the regulator. There is a remote risk that the final outcome of the CMA redetermination is worse than the Final Determination but, on the assumption that the redetermination is materially 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 2030, and is financially resilient in the face of moderate downside shocks.

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 and mitigations described above.



# Financial performance

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

## Financial results

The financial results are summarised in the table below:

	2020 Total £m	2019 Total £m
<b>Revenue (excluding grants and contributions)</b>	<b>1,330.6</b>	<b>1,280.3</b>
Grants and contributions	89.3	74.4
Operating costs	(624.6)	(604.0)
Impairment losses	(40.7)	(26.5)
Other operating income	13.0	13.6
<b>EBITDA</b>	<b>767.6</b>	<b>737.8</b>
Depreciation and amortisation	(368.5)	(348.8)
<b>Operating profit</b>	<b>399.1</b>	<b>389.0</b>
Finance income	4.8	2.9
Finance costs <sup>1</sup>	(329.9)	(331.4)
<b>Adjusted profit before tax</b>	<b>74.0</b>	<b>60.5</b>
Finance costs – fair value losses on derivative financial instruments	(30.4)	(98.4)
<b>Profit/(loss) before tax on a statutory basis</b>	<b>43.6</b>	<b>(37.9)</b>

<sup>1</sup> In order to show pre-tax performance based on management's view of an underlying basis, the fair value losses on derivative financial instruments have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance.

## Revenue

Revenue, excluding grants and contributions, for the year was £1,330.6 million (2019: £1,280.3 million), an increase of £50.3 million (3.9 per cent) on last year. This primarily reflects the regulatory pricing mechanism, offsetting reduced demand for both household and non-household customers.

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 £14.9 million to £89.3 million, which reflects an increased level of adopted sewers and pumping stations in relation to new housing developments.

## 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 decreased by £0.6 million to £13.0 million, principally due to increased power usage resulting in lower income from power generation.

## Operating costs and impairment losses

Operating costs including impairment losses for the year increased by £34.8 million (5.5 per cent) to £665.3 million. This increase is explained in the table below:

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

	£m
One-off costs in 2018/19 not repeating	(3.3)
General inflationary increases	15.6
Increase in energy prices and costs	5.0
Increase in below-ground infrastructure maintenance	4.0
Operating costs of newly commissioned plant	4.4
Maintenance totex solutions	2.0
Restructuring costs	5.0
Increase in bad debt charge	14.0
Net efficiency savings achieved	(11.9)
<b>Net increase in operating costs</b>	<b>34.8</b>

The increase in bad debt charge primarily reflects an additional £12.0 million provision in relation to the impact of Covid-19, which has resulted in lower post year-end cash collection.

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 and renegotiating supplier contracts on improved terms. In addition, a number of productivity improvements resulted from embedding more lean thinking and processes into the business, and more efficient asset maintenance programmes.

## EBITDA

EBITDA has increased by 4.0 per cent to £767.6 million, which is consistent with the effect of the regulatory price increases outweighing the increases in operating costs.



## Depreciation and amortisation

Depreciation and amortisation is up 5.6 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

Operating profit has increased by 2.6 per cent to £399.1 million, which is consistent with the increase in EBITDA partially offset by the increase in depreciation.

## Financing costs and profit before tax

Adjusted finance costs (excluding fair value gains and losses on financial instruments) decreased from £331.4 million in 2019 to £329.9 million in 2020. 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 3.2 per cent to 2.6 per cent, partially offset by an increase in interest costs and a decrease in interest capitalised, the latter reflecting a lower level of capital projects in progress.

There was a fair value loss of £30.4 million on derivative financial instruments in 2020, compared with a loss of £98.4 million in 2019. This reduction was due to movements in market expectations of long-term interest, inflation and exchange rates. Fair value losses in the prior year include a charge of £11.7 million relating to the restructuring of derivatives that were cash settled in the period. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the smaller loss in 2020 compared to 2019 were a significant fall in forward inflation expectations substantially offset by a fall in forward interest rates. During the year, forward inflation decreased by circa 62 basis points (2019: increase of 12 basis points), and forward interest rates decreased by 68 basis points (2019: 16 basis points).

Adjusted profit before tax for the year was £74.0 million, compared with £60.5 million in the prior year. This increase reflects the increase in operating profit due to revenue increases more than offsetting higher operating costs and depreciation.

## Taxation

Our underlying effective tax rate of 22.2 per cent is in line with the rate of corporation tax before considering the effects of the reversal of the corporation tax rate reduction and adjustments for prior periods. 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 2020, other than corporation tax, amounted to £270 million (2019: £256 million), of which £87 million (2019: £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 credit for the year was £14.5 million (2019: charge of £55.9 million).

The current tax charge for 2019 included 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.

In 2020 the current tax credit reflects receipts from other Group companies for losses surrendered to those Group companies. No capital allowances have been disclaimed in 2020.

### Deferred tax

The deferred tax charge has increased by £195.9 million from a credit of £61.0 million in 2019 to a charge of £134.9 million this year. This is mainly due to the reversal of a corporation tax reduction and the claiming of maximum capital allowances in the year.

The corporation tax rate was expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020, and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent.

This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances have been re-measured using the rate of 19 per cent.

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





## Successful final year of AMP6 investment programme

AMP6 gross capital expenditure in the appointed business for the year was £470.9 million (£250.1 million on capital maintenance, £220.8 million on capital enhancement), compared to £440.0 million in the fourth year of AMP6. This level of expenditure is broadly in line with management expectations, and concludes our commitment to reinvest £100 million of efficiencies and £65 million in resilience. We have successfully delivered a number of our obligations for the Environment Agency through some innovative and lower build approaches which have enabled us to both reduce carbon and deliver best whole-life cost solutions. These schemes at places such as Ingoldsthorpe, Great Dunmow and Stanbridgeford will not only form the basis of our Green Bond-funded investment plan, but will also serve as a blueprint for the approach we want to take in AMP7 (2020–2025).

Over the 2015–2020 five-year period, we have invested £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 2020, Anglian Water sourced £215.9 million of funds in term debt and drew down £600.0 million of working capital facilities to provide a short-term liquidity buffer in light of the ongoing Covid-19 uncertainty. The facility agreements against which these drawdowns were taken currently mature in 2024. The new term funds were the result of further Green Bond funding in the year, the proceeds of which will be used to finance our capital expenditure. Debt repayments comprised: a £6.7 million lease repayment; the repayment of the JPY 5 billion (£25.1 million) bond and associated cross-currency swap maturing in May 2019; £135.1 million in relation to the full redemption of the £50 million 1.3 per cent and £50 million 1.626 per cent EIB loans, with further £52.0 million of amortising redemptions on the remaining EIB loan portfolio.

At 31 March 2020, Anglian Water had borrowings net of cash of £7,415.4 million (£6,677.2 million excluding derivatives), an increase of £255.6 million (£296.9 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £7,675.9 million, derivative financial instruments of £738.2 million (excluding energy derivatives of £4.6 million), leases of £49.4 million, and cash and deposits of £1,048.1 million. The increased net borrowings primarily reflect the ongoing capital investment programme.

The business generated cash from operations of £686.0 million in the year (2019: £700.7 million). The decrease primarily reflects the reduction in cash collection from retailers as a result of the agreement to defer payment of 50 per cent of the March invoice as well as an increase in the household customer bad debt charge.

## Distributions available to the ultimate investors

Dividend payments were marginally down on prior year. Dividends paid in the year of £67.8 million (2019: £68.0 million) were retained within the Group and used to finance Group operating costs and working capital needs. No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2019: £nil).

Based on the available free cash flow, there was capacity to pay a further dividend of £192.2 million. However, the Directors have not proposed to pay a final dividend in line with their de-gearing target.

This decision to retain £192 million follows on from the previous £165 million shareholder investment into the resilience of the Company. Both of these decisions reduced shareholders' returns in AMP6 for the benefit of the Company.

The Company's dividend policy is to identify the cash available for distribution, allowing for the business' 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 designed to ensure that there is adequate headroom in relation to all of the Company's financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts 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 consideration of the needs of our customers, employees, pensions schemes and other stakeholders while ensuring the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and, in practice, will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Company's Licence.



As part of its PR19 process, Ofwat has introduced a mechanism that penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat's AMP7 determination) by way of an application to the CMA for a redetermination. The Company's approach to de-gearing will be reviewed in the light of the CMA's decision, which is expected no later than March 2021.

## 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 2020, the Anglian Water Services Group held cash, deposits and current asset investments of £1,048.1 million (2019: £554.3 million). The increase in cash held is the result of the Company drawing down £600.0 million of committed bank facilities in light of economic uncertainty surrounding the coronavirus pandemic. These drawdowns are expected to provide an adequate buffer 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 19 on [pages 166–168](#) of the accounts.

In addition to the £600.0 million of facilities (2019: £600.0 million) which have been fully drawn, the Company has access to a further £450.0 million of undrawn liquidity facilities (2019: £400.0 million), consisting of £50.0 million for general corporate purposes, £279.0 million to finance debt service costs, and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market 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, 51.9 per cent (2019: 58.8 per cent) of the Company's borrowings were at rates indexed to inflation, 34.3 per cent (2019: 35.1 per cent) were at fixed rates and 13.8 per cent (2019: 6.1 per cent) were at floating rates. At 31 March 2020, the proportion of inflation debt to regulated capital value was 50.0 per cent (2019: 50.0 per cent).

## Pension funding

At 31 March 2020, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £171.6 million, compared to a surplus of £49.3 million at 31 March 2019. This increase in surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities, which has more than offset any impact on asset performance due to current market conditions. During the year, a deficit reduction payment of £15.1 million was made by the Company, compared with £12.5 million in the prior year.

In addition, the Company has an unfunded pension liability of £41.6 million (2019: £45.8 million).

## Annual Performance Report

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

This Strategic Report was approved by the Board of Directors on 15 June 2020 and signed on its behalf by Claire Russell, Company Secretary.



# Governance

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# Chairman's introduction

## Dear Stakeholder

I present the Corporate Governance Report for the year ended 31 March 2020. Information on the Company's performance during the year can be found in the Strategic Report on [pages 3 to 95](#), and the Company's financial statements start on [page 139](#).

As I referenced in my Chairman's welcome on [page 7](#), our most immediate concern, shared with every business across the globe, is our contribution to the management of the Covid-19 pandemic. Our service is vital, and it is critical that we continue to deliver for our customers.

Despite the challenges we face, we have taken significant positive steps. In particular, this year, we set an example for other UK businesses by adopting new Articles of Association to formally enshrine the principle that the Company will conduct its business and operations for the benefit of shareholders while delivering long-term value for the Company's customers, the region and the communities it serves, and seeking positive outcomes for the environment and society.

## Transparency and governance

For the first time, this year we are reporting against compliance with the Anglian Water Services Corporate Governance Code 2019, which was adopted by the Board in March 2019. As described in more detail in the Corporate Governance Report, the 2019 Code incorporates both Ofwat's revised Board Leadership, Transparency and Governance Principles (which are now incorporated into the Company's Licence) and most of the provisions contained in the 2018 UK Corporate Governance Code.

In addition, this report also reports against compliance with The Companies (Miscellaneous Reporting) Regulations 2018 for the first time. Details of the Board's approach to stakeholder engagement along with its section 172 statement can be found on [pages 20 to 27](#).

## Annual Performance Report

Once again, the Company's Annual Performance Report is being published as a separate document; see [www.anglianwater.co.uk/about-us/our-reports](http://www.anglianwater.co.uk/about-us/our-reports). This report contains a statement from the Board, which focuses on how the Company has set its long-term ambitions and targets and how the Company is delivering for everybody that it serves.

## Risk

During the year, the Board has reviewed in detail the top-tier risk register. Detailed disclosures in relation to our risk management process are included in the Strategic Report on [pages 72 to 87](#).

## Structure of the report

Over the following pages you will find the Directors' biographies ([pages 98 to 100](#)), the Corporate Governance Report ([pages 101 to 109](#)) and the reports of the Audit, Nomination and Remuneration Committees. Information on our Board evaluation can be found on [page 115](#) and information on the Company's approach to diversity and inclusion on [pages 114 to 115](#).

**John Hirst**  
Chairman  
15 June 2020





# Board of Directors

## Independent Chairman

### John Hirst, CBE

Member of the Remuneration Committee  
Member of the Nomination Committee

John Hirst was appointed as Chairman in April 2020. He joined the Board as an Independent Non-Executive Director in April 2015 and was appointed as Senior Independent Non-Executive Director in January 2016.

John is Chairman of the British Standards Institution and the National Oceanography Centre. He is a Non-Executive Director of Marsh Limited (for which he is also a member of the Audit, Nomination, Remuneration and Risk Committees), and a Non-Executive Director and Chairman of the Risk Committee for Jelf Insurance Brokers Limited, part of the Marsh group. He is also a director of IMIS Global Limited and Afontech Limited. John is Chairman of SUDEP Action and a Trustee of Epilepsy Research UK.

John was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc between 1998 and 2005. He joined Imperial Chemical Industries plc in 1979 where he held a number of roles over a 19-year period, including Group Treasurer and Chief Executive Officer, ICI Performance Chemicals. He also served as a Non-Executive Director and Chairman of the Audit Committee of Hammerson plc between 2004 and 2014. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

## Independent Non-Executive Directors

### Natalie Ceeney, CBE

Member of the Audit Committee  
Member of the Remuneration Committee

Natalie Ceeney was appointed to the Board in May 2018.

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

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

Senior Independent Non-Executive Director  
Chair of the Nomination Committee  
Member of the Remuneration Committee

Dame Polly Courtice was appointed as Senior Independent Non-Executive Director and Chair of the Nomination Committee in April 2020. She 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 at the University of Cambridge. She is a Director of Jupiter Green Investment Trust and serves on the environmental/sustainability advisory boards for a number of leading companies.

In 2016 Polly was made a Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 she was made a Lieutenant of the Victorian Order (LVO). Polly was awarded the 2015 Bright Award for Environmental Sustainability from Stanford University Law School, and in 2016 she was recognised with a Lifetime Achievement Award from Ethical Corporation.

### Zarin Patel

Chair of the Audit Committee  
Member of the Nomination Committee

Zarin Patel was appointed to the Board in October 2018 and was appointed as Chair of the Audit Committee in April 2020.

Zarin is currently a Non-Executive Director of Post Office Limited and is a member of its Audit & Risk Committee as well as being an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership plc. She also sits on the Board of Trustees of the National Trust and chairs its Audit & Risk Committee.

Zarin was most recently the Chief Operating Officer of The Grass Roots Group PLC, a customer and employee engagement specialist. She was the BBC's Chief Financial Officer and member of its Board from 2004 to 2013, during which time she helped to transform the BBC into a fully digital broadcaster. Prior to the BBC, she spent 16 years at KPMG working on FTSE-quoted conglomerates in a variety of sectors. Zarin is a chartered accountant.

**Paul Whittaker**

Member of the Audit Committee  
 Member of the Nomination Committee  
 Chairman of the Remuneration Committee

Paul Whittaker was appointed to the Board in October 2013 and became Chairman of the Remuneration Committee in January 2015. This role is one of a small number of advisory and consultancy activities he undertakes for infrastructure companies.

Paul Whittaker became Director, UK Regulation at National Grid plc in April 2006. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the Boards of the two main UK operating subsidiaries – National Grid Electricity Transmission plc and National Grid Gas plc. Immediately prior to that he was Group Head of Strategy.

His career started in British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working in the US, Egypt and Ireland. He joined National Grid when it merged with Lattice in 2002.

**Executive Directors****Peter Simpson**

Chief Executive of Anglian Water Group

Peter has been Chief Executive of Anglian Water Group since October 2013; his previous roles include Managing Director of Anglian Water from January 2010 and Chief Operating Officer from 2004.

He is a founding member, and now co-chair, of the Prince of Wales's Corporate Leaders Group in the UK, run by the University of Cambridge Institute for Sustainability Leadership. The group provides a strong voice to support UK leadership nationally and internationally on the transition to a climate neutral, resource efficient, socially inclusive economy by 2050. He also works with Business in the Community as Chair of the Climate Adaptation Taskforce and Chair of the East of England Leadership Team, and sits on the Board of Trustees of WaterAid.

Peter is a Chartered Water and Environmental Manager, a Chartered Scientist and a Chartered Environmentalist. In 2016 he was made an Honorary Fellow of the Society of the Environment and an Honorary Fellow of the Chartered Institution of Water and Environmental Management. He holds an MBA from Warwick Business School.

Peter was Chairman of Water UK from April 2012 to October 2013 and is a past President of the Institute of Water.

**Steve Buck**

Chief Financial Officer

Steve Buck joined Anglian Water Group in June 2019 and was appointed to the Board as Chief Financial Officer in August 2019.

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

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

Steve is both a Chartered Management Accountant and a firm believer in the importance of engagement, inclusivity, scrutiny and transparency when it comes to delivering against the needs of a modern business acting with public interest at its core.



## 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 is a Managing Director in CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance, where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBEF, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University.

James is also a director of Associated British Ports Holdings Limited and Glencore Agriculture Limited. He was appointed an alternate Non-Executive Director of Anglian Water Group Limited in December 2014 and as a Non-Executive Director in May 2018.

### 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.

He has been a Non-Executive Director of Anglian Water Group Limited since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

### Duncan Symonds

Duncan Symonds was appointed as a Non-Executive Director in November 2016. Duncan is the Executive Director of Asset Management for the IFM Investors European Infrastructure team. He also represents IFM Investors as a Director on the boards of Global Infracore S.a.r.l., Airports Group Europe S.a.r.l., Luxpoort S.a.r.l. and is an alternate Non-Executive Director on the Board of Anglian Water Group Limited.

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 Cranfield School of Management.



# Corporate Governance Report for the year ended 31 March 2020

## Principles of corporate governance

In January 2019, Ofwat issued a revised set of Board Leadership, Transparency and Governance Principles (the BLTG Principles), which consist of four broad objectives and a series of supporting provisions. These principles, which are set out below, supersede the previous BLTG Principles, which were issued in 2014. During the financial year Ofwat incorporated a new condition into company Licences requiring all companies to meet the objectives contained in the BLTG Principles and explain, in a manner that is effective, accessible and clear, how companies are meeting the four objectives.

In July 2018, the Financial Reporting Council (FRC) published the 2018 UK Corporate Governance Code. Separately, in December 2018, the FRC published the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). Both the 2018 UK Corporate Governance Code and the Wates Principles apply to companies' accounting periods beginning on or after 1 January 2019.

In response to both Ofwat's revised BLTG Principles and the wider changes in corporate governance referred to above, the Company developed the Anglian Water Services Corporate Governance Code 2019 (the 2019 Code). The 2019 Code incorporates Ofwat's revised BLTG Principles together with the supporting provisions which underpin those Principles and most of the provisions contained in the 2018 UK Corporate Governance Code. Only those parts of the 2018 UK Corporate Governance Code that cannot be sensibly applied to a company in private ownership have been omitted. Although compliance with the Wates Principles (in addition to the BLTG Principles) would have been sufficient, the Board was keen to adopt more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code.

The 2019 Code came into effect on 1 April 2019, and this report details compliance with the 2019 Code for the first time. The 2019 Code can be found at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance). In addition, the Company is reporting against compliance with The Companies (Miscellaneous Reporting) Regulations 2018 for the first time. The Company Secretary keeps compliance with the relevant corporate governance standards under review and any changes recommended are subject to approval by the Board.

## Company Purpose, values and culture

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

The Board has long recognised that the Company has a special responsibility as a monopoly provider of an essential public service. The Company has a duty to deliver wider benefits to society, above and beyond the provision of safe, clean water and the effective recycling of waste water. Therefore, in July 2019, the Board recommended to its shareholder that the Company should amend its Articles of Association in order to formally enshrine its clear and long-standing commitment to a social and environmental purpose. As a consequence of this change in its constitution, the Company must conduct its business and operations for the benefit of shareholders while delivering long-term value for the Company's customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. This means that the Board must take account of the wider impact the Company has on its customers, communities and the environment, as well as delivering a fair return for our shareholders. As part of the change to the Articles the Board has also made an explicit commitment to consider, as part of its decision-making process:

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

Within the new Articles of Association, the Directors are required to adopt a Statement of Responsible Business Principles (SRBP) and, to the extent not covered in the non-financial information statement, explain any steps that have been taken to ensure that the business of the Company has been carried out in accordance with the





SRBP. The Board has decided that, pending the completion of a Publicly Accessible Specification for Responsible Business, the Company will hold itself to account in relation to the standards set out in Business in the Community's Responsible Business Tracker. Further information on the development and the adoption of the SRBP can be found on [page 13](#). In addition, the Company's non-financial information statement can be found on [pages 36–37](#). The non-financial information statement is designed to help readers find key elements on non-financial matters.

To support the Company's Purpose, the Board has engaged in a number of activities during the year, including overseeing the development of a framework which gives all employees a common goal or 'North Star' to work towards. The North Star responds to the desire expressed by many employees for a shared goal which unites the Company's Purpose, mission and values. Created with employees, the North Star is a re-articulation of the Company's Purpose and is underpinned by a mission statement that describes what kind of business the Company is and by three core values that set standards of behaviour for the business and underpin the Company's mission and Purpose.

The Board has also sponsored the development of a Social Contract, with the support of employees and customers, which brings together the Company's five Public Interest Commitments with its 10 customer outcomes to generate a series of undertakings (see [page 14](#)). This Social Contract therefore comprises a series of commitments on the part of the Company in return for which customers and communities are asked to help the Company build a sustainable, purposeful business to the benefit of the region.

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

To ensure that colleagues understand the standards expected of them, the Company provides all new starters with a booklet entitled *Making the Right Choices*. The booklet summarises key Company policies in a clear and concise way to ensure that our values and standards are clear to colleagues from their very first day.

Further information on the development of the Company's Purpose can be found on [pages 12–13](#) and values on [page 66](#).

A statement from the Board detailing how the Company has set its aspirations and performs for all those it serves can be found in the Company's Annual Performance Report (via [www.anglianwater.co.uk/about-us/our-reports](http://www.anglianwater.co.uk/about-us/our-reports)).

## Corporate Governance arrangements resulting from the Aligned Debt Programme

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

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

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



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

- (a) Non-Permitted Business Limits (i.e. de minimis limits on the amount of non-regulated business which can be carried out)
- (b) a restriction on tax transactions and a positive obligation to pay all taxes when due
- (c) minimum insurance requirements (including requirements on the creditworthiness of the insurers)
- (d) a hedging policy to require prudent hedging of interest rate and foreign exchange exposure and to prohibit speculative use of derivatives and ensure swaps are only entered into with highly rated counterparties (so as to reduce counterparty risk)
- (e) a requirement to maintain and hold all required IP rights
- (f) an obligation to act in accordance with 'Good Industry Practice' in all areas of the business.

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

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

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

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

The Board's aim is to ensure the effective delivery of the Company's strategy. The Board identified six strategic priorities for AMP6 (2015–2020), which were:

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.

The Company has developed four key goals for AMP7 which are:

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

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of the Company's strategic priorities. The Board has a formal governance matrix, which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues. A list of matters reserved to the Board appears at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance). This document also shows which decisions are reserved to the Board of Anglian Water Group Limited (AWG). They include:

- material changes to the Company's strategy
- material changes to the annual operating and capital expenditure budget
- extension of the Company's activities into new business or geographic areas
- any decision to cease to operate all or any material part of the Company's business
- material changes relating to the Company's capital structure, including reduction of capital, share issues and share buy-backs
- approval of dividend policy
- approval of accounting and treasury policy and practices
- approval of procurement strategy for award of new contracts by the Company where the contract value (over the life of the contract) is expected to be in excess of £30 million
- approval of remuneration policy
- approval of the total pay received by each Director
- approval of the appointment of the Company's auditors
- agreeing to refer any matter (including any proposed Licence modification or Final Determination) to the Competition and Markets Authority.

During the 2019/20 financial year, a number of matters required approval by the AWG Board under the terms of the governance matrix, these included:

- changes in remuneration for both Executive Directors and Independent Non-Executive Directors
- the adoption of the Company's new Articles of Association



- the procurement strategy in respect of two material contracts
- the appointment of Steve Buck as the Chief Financial Officer for the Company
- the rejection of the Final Determination and that the Company should seek a redetermination
- the appointment of John Hirst as Chairman, and associated changes in Board composition.

The Board does not believe that the impact of the governance matrix referred to above is such that Directors are deprived of the opportunity to exercise control of the Company's strategy. Companies that are governed by the Listing Rules must obtain shareholder approval before concluding a material transaction (materiality being determined by reference to the Class tests set out in Rule 10). Such transactions are likely to result from a major change in strategy and might include (for example) the acquisition of another undertaker (or a part thereof). The Board therefore considers it to be reasonable to ask the ultimate owners of the Company to approve material changes in strategy given that this power is broadly analogous to the approval power of shareholders in a listed company. Where matters require the approval of the AWG Board, the role of the Board is to consider the relevant proposal and to make a recommendation to the AWG Board for approval. In formulating their recommendations, the Directors of the Company are mindful of the Company's Purpose (referred to above) as well as their duty under the Company's Articles of Association to act in the way that is likely to promote the success of the Company (which requires Directors to have regard to the likely consequences of any decision in the long term while also having regard to the interests of other key stakeholders).

The composition of the Board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the Company. The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Company's strategy and performance. The Board is satisfied that the composition of the Board and its Committees are such that there is an appropriate balance of skills, experience, independence and knowledge of the Company. As is explained below, half of the Board is made up of Independent Non-Executive Directors. The Board considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the Board's decision taking. Details of the skills and experience of the Directors are contained in the Directors' biographies on [pages 98–100](#).

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 composition

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

### John Hirst

(Independent Non-Executive Chairman, appointed as Chairman 1 April 2020)

### Peter Simpson

(Chief Executive Officer)

### Steve Buck

(Chief Financial Officer, appointed 1 August 2019)

### Natalie Ceeney

(Independent Non-Executive Director)

### Dame Polly Courtice

(Senior Independent Non-Executive Director)

### Zarin Patel

(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)

The following Directors resigned from the Board during the year:

### Scott Longhurst

(Managing Director, Finance and Non-Regulated Business, resigned 31 July 2019)

### Stephen Billingham

(Independent Non-Executive Chairman, resigned 31 March 2020)

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

The Company's Chairman is also the Chairman of the Company's ultimate parent company, AWG. The 2019 Code does not prohibit chairmanship of other companies in the Group, and on appointment as Chairman, the Board considered both Stephen Billingham (who resigned as Chairman on 31 March 2020) and John Hirst (who was appointed as Chairman with effect from 1 April 2020) to be independent in judgement and character, notwithstanding the existence of their other directorships.



Both Stephen Billingham and John Hirst are independent of investors and management and have no relationship with any of the Company's shareholders, except for their chairmanship of AWG. None of the other situations listed in provision 2.3 of the 2019 Code, which might otherwise call into question 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 2020. The Board concluded that all the Independent Non-Executive Directors remain independent of management and are not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2019 Code.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the Company rather than service contracts, which include the expected time commitment of the appointment. Copies of these letters can be found at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance).

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

## Board structure and effectiveness

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

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) can be found at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance). The Chairman's commitment to the Company and to its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on [page 98](#). The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

No Director may vote on any contract or arrangement between the Company and any other Anglian Water Group company if he/she is also a Director of that Anglian Water Group company. In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board. On appointment to the Board, all Directors are required to declare all their interests; any new interests held by Directors are considered at the start of each Board meeting and, where relevant, interests are declared prior to any substantive discussions. In addition, a further review of all Directors' interests is undertaken annually. The Board has approved a protocol for dealing with conflicts of interests, which is available on the Company's website ([www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance)).

The Company Secretary is available to all Directors and is responsible for advising the Board on corporate governance matters. The Board has responsibility for the appointment and removal of the Company Secretary.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to skills, knowledge, experience and diversity. Non-executive appointees are required to meet with Ofwat prior to their appointment to the Board and are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table overleaf.

## Board committees

The Board has an Audit Committee, a Nomination Committee and a Remuneration Committee. Final decisions on issues considered by each of these Committees are made by the Board; all decisions made during the year were unanimous.

### Audit Committee

Details of the terms of reference of the Audit Committee, its membership and activities during the year are contained in the Audit Committee Report on [pages 110–113](#). All members of the Audit Committee are Independent Non-Executive Directors and its chair is Zarin Patel.

### Nomination Committee

Details of the terms of reference of the Nomination Committee, its membership and activities during the year are contained in the Nomination Committee Report on [pages 114–115](#). The majority of the members of the Nomination Committee are Independent Non-Executive Directors and its chair is Dame Polly Courtice.





## Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the Company's remuneration policy and the remuneration paid to Directors during the year are contained in the Directors' Remuneration Report on pages 116–134. The majority of the members of the Remuneration Committee are independent and its chairman is Paul Whittaker.

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

A document setting out the role and duties of the Senior Independent Non-Executive Director has been agreed by the Board and can be found at [www.anglianwater.co.uk/governance](http://www.anglianwater.co.uk/governance).

## Board processes

The Chairman is responsible for ensuring that Directors receive timely, accurate and clear information. To ensure adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties. The Company Secretary is available to all Directors and is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

## Board composition and roles

<b>Independent Chairman</b>	John Hirst	Responsible for leading the Board and for its overall effectiveness in directing the Company. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the Purpose, goal, vision and values for the whole organisation. Responsible for ensuring that the Directors receive accurate, timely and clear information.
<b>Chief Executive Officer</b>	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.
<b>Chief Financial Officer</b>	Steve Buck	Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the Company.
<b>Senior Independent Non-Executive Director</b>	Dame Polly Courtice	Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the Company if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.
<b>Independent Non-Executive Directors</b>	Natalie Ceeney Zarin Patel Paul Whittaker	Responsible for bringing independence to the Board and its decision-making process. They particularly provide constructive challenge and strategic guidance, offer specialist advice and hold management to account.
<b>Non-Executive Directors</b>	James Bryce Niall Mills Duncan Symonds	Responsible for providing constructive challenge to the Board's decision-making processes.



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

All new Directors receive a thorough induction programme on appointment, which includes receiving a full background information pack, visits to operational sites and briefings from Executive Directors and senior managers. To ensure that there is a clear understanding of the responsibilities attached to being a Non-Executive Director in the sector, all Non-Executive Directors attend a pre-appointment meeting with representatives from Ofwat. However, following the appointment of John Hirst as Chairman of the Company, he met with the Chairman of Ofwat during the week following his appointment.

The Company offers the Directors in-house training as necessary to aid their professional development and awareness of business and sector-specific issues. In addition, the Company offers to fund participation on externally provided training courses. All Directors are entitled to receive, at the Company's expense, independent professional advice on any matters relating to their responsibilities as a Director.

Periodically, the Board visits different business locations to enable the Directors to meet with a range of employees, and to update and maintain their knowledge of and familiarity with the Company's operations. During the year, the Board attended a market stalls event at Grafham Water which gave Directors the opportunity to meet with employees who will be delivering a number of the planned AMP7 initiatives, such as smart metering and the Strategic Pipeline Alliance.

Information on the annual evaluation of the performance of the Board can be found in the Nomination Committee Report on [page 115](#).

## Board leadership and transparency

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

### Board meetings

The Board held 11 scheduled meetings during the year ended 31 March 2020. In addition, the Board held two scheduled meetings between 31 March 2020 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 Chairs of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by those respective committees since the previous Board meeting.

### Board and Committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2020 is shown in the table overleaf. All decisions made by the Board during the year were unanimous.

During the year, 15 other Board meetings were held, some at short notice, to deal with the following matters: delegating authority to the Treasury function; the prospectus renewal; financing matters including bond issues and the annual renewal of the liquidity facility; the approval of the charges scheme; the provision of a statutory certificate to Ofcom, pursuant to which the Company is permitted to install electronic equipment in the public highway; an option agreement relating to the relocation of the Cambridge Waste Water Treatment Plant; and approval of Board and Committee changes.

Since 31 March 2020, two further scheduled Board meetings have been held, which all Directors attended.

A further meeting of the Remuneration Committee was held on 29 May 2020, which all members attended. Further meetings of the Audit Committee were held on 29 May and 10 June 2020. Natalie Ceeney was unable to attend the meeting on 10 June 2020.

Board Committees are authorised to engage the services of external advisors as they deem necessary in the furtherance of their duties at the Company's expense.



Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
John Hirst	9/11	3/3	2/2	5/5
James Bryce	10/11	-	1/2	4/5
Steve Buck*	8/8	2/2	-	3/4
Natalie Ceeney	11/11	3/3	-	5/5
Dame Polly Courtice	11/11	-	2/2	5/5
Niall Mills	9/11	-	2/2	4/5
Zarin Patel	11/11	3/3	2/2	-
Peter Simpson*	11/11	3/3	2/2	5/5
Duncan Symonds	10/11	-	-	-
Paul Whittaker	11/11	-	2/2	5/5

#### Former Directors who served during the year

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham**	11/11	3/3	1/2	4/5
Scott Longhurst*	3/3	1/1	-	1/1

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

\*\* Stephen Billingham attended Audit Committee meetings by invitation.

## Risk management and internal control

Detailed disclosure in relation to the Company's approach to managing risk is included in the Strategic Report on pages 72–91 along with details of the Company's principal risks and an assessment of the future viability of the business.

The Company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These include:

- The formulation and deployment of Company accounting policies and procedures.
- Policies governing the maintenance of accounting records, transaction reporting and key financial control procedures.

- Monthly operational review meetings, which include, as necessary, reviews of internal financial reporting issues and financial control monitoring.
- Ongoing training and development of appropriately qualified and experienced financial reporting personnel.

For the year ended 31 March 2020, the Company's internal and financial controls included the following:

- An internal audit programme, outsourced to PricewaterhouseCoopers LLP. The internal auditor carries out a comprehensive review of internal controls and formally reports its findings and recommendations to the Audit Committee.
- An annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility, which is subsequently reviewed by the Audit Committee.



- A formal controls questionnaire completed by the business twice a year and reviewed by the internal auditor, with the conclusions being highlighted to the Audit Committee.
- A regular review by the Board of the top-tier risk register.
- An annual review of certain financial controls, by the Company's external auditor, as part of its year-end audit. The findings of the most recent review were reported to the Audit Committee in March 2020 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.

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

- Group's structure ([pages 30–31](#))
- dividend policy ([page 63](#))
- dividends paid ([page 94](#)).

The Directors' Remuneration Report ([pages 116–134](#)) explains the Company's executive pay policy and how the criteria for awarding short- and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied.

## Compliance with the BLTG Principles and the 2019 Code

Under the terms of its Licence, the Company is required to explain in a manner that is effective, accessible and clear how it is meeting the objectives contained in the BLTG principles. As detailed earlier in this report, the Board had incorporated the BLTG Principles (and its supporting provisions) into its 2019 Code and therefore, by reporting against compliance with the 2019 Code, the Board is also reporting against compliance with the BLTG Principles. The Board confirms that it has complied with the 2019 Code with the following exceptions:

- John Hirst held his meeting with Ofwat shortly after his appointment as Chairman rather than prior to his formal appointment being made (2019 Code, provision 3.4).
- There was no formal evaluation of Stephen Billingham during the financial year due to the fact he retired from the Board on 31 March 2020 (2019 Code, provision 3.6).
- With effect from 1 April 2020, Independent Non-Executive Directors were no longer in the majority on the Board (2019 Code, provision 2.3). However, Independent Non-Executive Directors remain the largest single group on the Board.

This report was approved by the Board of Directors on 15 June 2020.

**Claire Russell**  
Company Secretary  
15 June 2020





# Audit Committee Report

**Chair**

Zarin Patel

**Other members**Natalie Ceeney  
Paul Whittaker**Meetings**

Three

**Meetings also regularly attended by:**

Steve Buck, Chief Financial Officer; 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.

Meetings were also attended by Stephen Billingham, Chairman, and Scott Longhurst, Managing Director of Finance and Non-Regulated Business, until their respective resignations on 31 March 2020 and 31 July 2019.

**Composition of the Committee**

John Hirst resigned as Committee Chairman on 31 March 2020, when he was appointed as the Company's Chairman. He was replaced as Committee Chair by Zarin Patel. Paul Whittaker was also appointed as a member of the Committee on 31 March 2020. Directors' biographies are available on [pages 98–100](#).

**Available to view on the Company's website ([www.anglianwater.co.uk](http://www.anglianwater.co.uk)):**

Audit Committee's terms of reference. Whistleblowing policy.

## Role of the Committee

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes, which exist to identify, assess, mitigate and manage risk. Internal audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Committee's primary functions are to:

- monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- review financial statements and significant financial returns to regulators
- review the integrity of the Company's systems of internal control
- consider the effectiveness of the risk management systems and whether they provide reasonable levels of mitigation against material misstatement and losses
- monitor and review the effectiveness of the internal audit function
- oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- review and approve the annual audit plan
- monitor the provision of non-audit services by the external auditor.

## Membership and attendance

The composition of the Committee changed during the year, with John Hirst stepping down as Chairman on 31 March 2020, when he was appointed as Chairman of the Company. John was replaced by Zarin Patel as Chair, with effect from 1 April 2020. Paul Whittaker was appointed as an additional member of the Committee, also with effect from 1 April 2020. The Board is satisfied that sufficient members of the Committee have recent and relevant financial experience. Zarin Patel is a chartered accountant. She was formerly Chief Financial Officer of the BBC and is an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership plc and is therefore considered by the Board to have recent and relevant financial experience. Natalie Ceeney has considerable financial services experience, having worked for the Financial Ombudsman Service and been a member of HSBC's UK executive team. Paul Whittaker held a number of regulatory roles at National Grid. 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. All members of the Committee are considered to have competence relevant to the sector in which the Company operates.

Representatives from the external auditor and internal auditor also attended all or part of the Committee's meetings. In addition, members of the Committee met separately with representatives of the external auditor and internal auditor without management being present. The Company Secretary is Secretary to the Audit Committee.



## Main activities in the year

### Financial reporting

- Reviewed the Interim and Preliminary results, draft Annual Integrated Report for the Company for the financial year ending 31 March 2019 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, valuation of defined benefit pension scheme, classification of costs between operating and capital expenditure and derivative accounting).
- 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 2020/21.
- Reviewed internal audit reports.

### Other

- Considered the financial resilience of the Company to the impact of Covid-19.
- Considered material litigation.
- Reviewed reporting requirements.
- Reviewed non-audit fee policy.

All business discussed by the Committee during the course of the year was reported to the Board.

## Risk management and internal control

Detailed disclosure regarding the Company's approach to assessing and managing emerging and principal risks is included in the Strategic Report on pages 72–76, followed by details of the Company's principal risks and an assessment of the future viability of the business.

The Audit Committee reviews the effectiveness of the Company's risk management and internal control systems throughout the year to ensure their adequacy. This is achieved through a number of activities, as follows:

- Risks are managed using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks, to document the existing controls in place to manage these risks, to ensure mitigation plans are established and monitored, and to establish clear ownership of each of the risks.
- The top-tier risk register is regularly reviewed by the Board and the Management Board.
- The Audit Committee reviews and approves the internal auditor's risk-based internal audit programme each year, with regular meetings to assess progress and reprioritise audits if necessary, to review the internal auditor's recommendations and to monitor progress in implementing those recommendations.
- The external auditor reports annually on the findings of its review of the internal control environment to the Audit Committee.
- All control improvement recommendations are followed up by audits, the reports on which enable monitoring by the Audit Committee.
- Each member of the Management Board is required to review and self-certify the adequacy of the internal control for their area of the business on an annual basis. The results of this review are collated by the internal auditor and presented to the Audit Committee.

## Whistleblowing programme

The Group has a whistleblowing policy whereby employees can, in confidence, report on matters where they feel malpractice is taking place or if health and safety standards are being compromised. Additional areas addressed by this procedure include criminal activities, improper or unethical behaviour, and damage to the environment.

Employees are encouraged to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline or confidential email address, which is routed to the internal auditor.

The internal auditor maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to an appropriate designated person for investigation.

Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by internal audit of each stage of the procedure. Wherever possible, the individual's identity will remain confidential.



However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released.

This policy and related procedures and any allegations made via the process are monitored by the Audit Committee. Any significant reports arising from the whistleblowing process would be reported to the Board.

## 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 2019, the Committee approved the internal audit plan for 2019/20, and the plan for 2020/21 was approved at its meeting in March 2020. However, in approving the plan the Committee recognised the challenges the Company was facing with regards to Covid-19 and it was agreed that there may be the need to flex the plan over the course of the next financial year. In preparing the internal audit plan, PwC met with key personnel across the Group to obtain their views on the risks facing the Group. PwC then developed its plan based on the Group's organisational objectives, priorities and the risks that may prevent those objectives from being achieved. The plan is assessed on the basis of risk but also the nature of the review for particular areas that can be carried out on either an annual, rotational or value-enhancing basis.

During the year, the Committee received regular reports from the internal auditor, which set out its view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses, together with a timetable for completion of actions.

Internal audits carried out during the year included cyber security, GDPR processes and controls, software licence management, cloud governance, revenue bi-annual controls, Outcome Delivery Incentives, HR systems, tendering and procurement processes, smart meters, bi-annual cash controls review and the Common Terms Agreement.

The Audit Committee actively contributes to the development of the annual internal audit plan and regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected quality. The Chairman of the Audit Committee also has an annual call with the Independent Senior Relationship Partner at PwC (currently John Maitland). On this basis the Audit Committee considers the internal audit process to be effective.

## Independence of external auditors

The effectiveness of the external audit process is principally measured by the quality and timeliness of the annual reporting to the Audit Committee. In addition, the Chairman of the Audit Committee meets annually with the Independent Senior Relationship Partner (currently Mark Lee-Amies), independent of the external audit team, to discuss performance and effectiveness issues.

To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee will annually review the scope and value of all non-audit-related work conducted by Deloitte on behalf of the Company. Further information on non-audit services is detailed below. Deloitte was awarded the contract for external audit services in September 2016. The contract was for a four-year term which could be extended for up to a further four years, either annually or for any alternative period. The initial four-year contract will expire in September 2020. At its meeting in March 2020, after careful consideration the Committee agreed to extend Deloitte's contract for a one-year period until September 2021.

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 2020, the Committee was satisfied with the performance, objectivity, audit quality and independence of Deloitte as the external auditor.

## Non-audit services

The Committee recognises that a key factor that may impair the external auditor's independence and objectivity is a lack of control over the volume and/or value of non-audit services. To address this issue, the Committee has a policy for fees on non-audit work carried out by the external auditor. For the year ended 31 March 2020, any request to use the external auditor to carry out non-audit work had to be authorised by both the Chief Financial Officer and the Chair of the Audit Committee. In addition, there was a limit on the level of fee which could be paid to the external auditor for non-audit work. At its meeting in March 2020, the Committee agreed a new policy on fees for non-audit work with effect from 1 April 2020. Under the new policy, only work permitted by the Financial Reporting Council's (FRC) 'whitelist' may be undertaken by the external auditors and the level of non-audit fees is restricted to 70 per cent or less of the average of the previous three years' audit fees.

The fees paid to the external auditor during the year are set out in note 6 to the financial statements on [page 155](#). The non-audit fees in the year to 31 March 2020, were £0.2 million and predominantly related to consulting services that relate to supporting management in strategy development for operational activities as well as providing assurance services on the PR19 submission. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect its 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 115](#). The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 25 March 2020. No material shortcomings in the operation of the Committee were highlighted.

## Annual Integrated Report

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

- **Bad debt provision:** The Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience, current conditions and estimates of future economic conditions. Management calculates the bad debt provision by firstly evaluating the estimated recoverability of trade receivables and records a provision based on experience, primarily cash collection history, and then adjusts, as necessary, for forward-looking factors such as a change in economic conditions. In its forward-looking review, the Committee considered management's assessment of the potential impact of Covid-19 on the bad debt charge based on market data and a review of post year-end cash collection rates. Further information can be found in notes 2(b) and 16 of the financial statements.
- **Measured income accrual:** Estimating unbilled household income: the Committee reviewed the methodology and outcome of the estimate for measured income for the year ended 31 March 2020, 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 41.7 per cent of measured household revenue. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption. The value of the measured income accrual is disclosed in note 16 of the financial statements.

- **Retirement benefit obligations:** The Group operates a defined benefit pension scheme, which was closed to future accrual on 31 March 2018. The Committee reviews the key assumptions that underpin the actuarial valuation of the scheme in accordance with IAS 19 'Employee benefits'. Further information can be found in note 2(b) of the financial statements.
- **Classification of costs between operating and capital expenditure:** The Committee considered the policy for classifying operating and capital expenditure, and the basis on which overheads are capitalised. Further information can be found in notes 1(k) and 2(a) of the financial statements.
- **Depreciation of property, plant and equipment:** The Committee considered the range of asset lives applied when calculating the depreciation charge. Further information can be found in note 2(a) of the financial statements.
- **Recognition of grants and contributions:** The Committee considered the rationale for recognising the income from grants and contributions as revenue when new properties are connected to the network. More information can be found in note 2(a) of the financial statements.
- **De-recognition of income:** The Committee considered the rules under IFRS 15 for only recognising income if it is probable that the entity will collect the consideration in exchange for the services provided.

## Going concern and viability

At its meetings in May and June 2020, the Committee considered the Company's preliminary results announcement, Annual Integrated Report and associated disclosures, including its going concern and viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the impact of Covid-19 and the referral of the Final Determination to the Competition and Markets Authority, the Company has adequate liquid resources to meet its obligations as they fall due in the next 12 months and to remain financially viable over the 10-year period to 31 March 2030. The Committee reviewed papers presented by management on its assessment of the Company's going concern and longer-term financial viability based on budgets, business plans and cash flow forecasts and the stress testing performed based on the Company's principal risks and the specific risks relating to Covid-19. The Committee considered the appropriateness of the scenarios modelled, the feasibility of management to deliver any required mitigations and the level of disclosure proposed and satisfied itself that the going concern basis of preparation is appropriate and that the Company is financially viable over the duration of its assessment period.

This report was approved by the Board of Directors on 15 June 2020.

**Zarin Patel**  
Chair of the Audit Committee  
15 June 2020





# Nomination Committee Report

**Chair**

Dame Polly Courtice

**Other members**

James Bryce

John Hirst

Manoj Mehta\*

Niall Mills

Zarin Patel

Paul Whittaker

**Meetings**

Two

**Meetings also regularly attended by:**

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

**Composition of the Committee**

\*Manoj Mehta is an investor-appointed member of the Nomination Committee but is not a member of the Board.

Stephen Billingham resigned as the Committee's Chairman on 31 March 2020, when he resigned as the Company's Chairman. He was replaced by Dame Polly Courtice with effect from 1 April 2020.

Directors' biographies are available on [pages 98–100](#).**Available to view on the Company's website ([www.anglianwater.co.uk](http://www.anglianwater.co.uk)):**

Nomination Committee's terms of reference

Diversity and Inclusion policy

Gender Pay Gap Report

## Role of the Committee

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

The duties of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes
- giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, how to support the development of a diverse pipeline, and the skills and expertise needed on the Board in future
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring its continued ability to operate effectively in the marketplace
- taking responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise
- before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- reviewing the results of the Board performance evaluation process that relate to the composition of the Board
- making recommendations to the Board concerning succession plans for both Executive and Independent Non-Executive Directors.

Only members of the Committee have the right to attend Committee meetings.

## Main activities in the year

### Board changes

On 31 March 2020, the Company's Chairman, Stephen Billingham, retired from the Board. After careful consideration, the Committee recommended to the Board the following changes in Board composition:

- that John Hirst be appointed as Interim Chairman of the Company
- that Dame Polly Courtice be appointed as Senior Independent Director and Chair of the Committee
- that Zarin Patel be appointed as Chair and Paul Whittaker be appointed as a member of the Audit Committee.

The Board approved the changes detailed above and all were implemented with effect from 1 April 2020. The Committee is leading the search and selection process for a new permanent Chairman with the support of Korn Ferry (a global executive recruitment firm which was appointed after a competitive tendering process, and which does not have any other connection with the Company or individual Directors other than supporting the recruitment of Board appointments). Before beginning the search process the Committee agreed the key skills and experience required by any individual appointed to the role.

### Diversity and inclusion

Anglian Water is committed to creating an environment where all employees feel included and valued in order to achieve their potential. The Company also recognises the importance of reflecting the diversity of its customers within its workforce. During the 2017/18 financial year, the



Company broadened the scope of its ambitions to focus on inclusion as well as diversity and created its Diversity and Inclusion Action Plan (the Plan). The Company's targets in this area are detailed below:

- our employees are as diverse as our customers
- we understand our race pay gap and are working to reduce it
- we have no gender pay gap
- we have more diversity in our leadership groups
- we have fair reward policies
- we are good at hiring people who think differently
- people are accepted for who they are and can contribute to the full
- Anglian Water has a reputation for fairness.

Over the last five years, the Company has made considerable progress against its diversity agenda, and at its meeting in May 2019 the Board reviewed progress made against the Plan, the challenges faced by the Company to meeting its objectives, and priorities going forward into AMP7.

At Board level, the Committee has not set a specific female Board member quota. The Company is similarly committed to appointing the best available person to any role within the Company regardless of gender. Further information on diversity can be found on [pages 67–68](#).

As at 31 March 2020, the gender balance of the Management Board and those employees who directly reported into Management Board members is detailed below:

Gender statistics	Female	Male
Management Board	16.7%	83.3%
Senior management (individuals reporting into Management Board)	39.8%	60.2%

### Succession planning

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

As detailed in last year's report, the Committee led the search for the new Chief Financial Officer and in January 2019 recommended to the Board that Steve Buck be appointed to replace Scott Longhurst. Steve Buck joined the business in May 2019 and was appointed to the Board on 1 August 2019.

During the year, the Committee considered senior executive succession as well as undertaking a broader review of the approach to talent management across the organisation. Succession plans are based on merit and capture individuals' current performance against their potential. The aim is to have a choice of successors able to take up a range of roles as needed. In addition, there is immediate cover in place, should it be needed, for all key posts. There is also a continued focus on leadership development, both as a recruitment and a retention tool. The Committee also considered the Company's approach to talent identification and its progress in promoting gender diversity across the organisation from senior roles to the graduate and apprentice schemes.

### Board and Committee evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance and a thorough evaluation was carried out during the year. The process was led by the Chairman and involved him carrying out one-to-one interviews with each Director. The evaluation focused on areas including the structure of Board and Committee meetings, strategy, risk, diversity and the performance of individual directors. The output from the interviews was used as the basis for further discussions between the Chairman and Board members, where necessary. The results were also presented to the Board at its meeting in May 2020 for consideration and debate.

The Chairman confirms that each Director continues to make a valuable contribution to the Board and, where relevant, to the Committees of the Board. Although no material shortcomings in relation to the operation of the Board and its Committees were highlighted during the evaluation, the Board agreed a number of actions as a result of the Board evaluation, which included: making more time to focus on strategic issues, including a clearer focus on key stakeholder groups; holding a series of sessions at future Board meetings to consider wider perspectives on the sector and other overarching issues; taking more time to understand the priorities of Independent Non-Executive Directors and investor directors respectively; and refining Board papers to reduce volume and ensure that there is an appropriate strategic focus.

Due to the Chairman's decision to retire from the Board on 31 March 2020, no formal evaluation of the Chairman was undertaken during the 2019/20 financial year.

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 15 June 2020.

**Dame Polly Courtice**  
Chair of the Nomination Committee  
15 June 2020



# Directors' Remuneration Report

**Chairman**

Paul Whittaker

**Other members**James Bryce  
Natalie Ceeney  
Dame Polly Courtice  
John Hirst  
Manoj Mehta\*  
Niall Mills**Meetings**

Five

**Meetings also regularly attended by:**

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

**Composition of the Committee**

Stephen Billingham resigned from the Committee when he resigned from the Board on 31 March 2020.

\*Manoj Mehta is an investor-appointed member of the Remuneration Committee but is not a member of the Board. Meetings are usually attended by either Manoj Mehta or his alternate on the AWG Board, Duncan Symonds.

Directors' biographies are available on [pages 98 to 100](#).**Available to view on the Company's website ([www.anglianwater.co.uk](http://www.anglianwater.co.uk)):**

Remuneration Committee terms of reference

Independent Non-Executive Directors' letter 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 2020 and the policy for 2020/21.

## Company performance in 2019/20

The past 12 months have seen real change in the industry as we completed AMP6 and began our preparations for AMP7 in uncertain circumstances. Through the commitment of our people, we've continued to lead the industry in customer service and leakage, helped to improve water quality to homes and hit our 2020 carbon reduction goals. Anglian Water was also placed as the top performer in Ofwat's Service Delivery Report, scoring in the top 25 per cent for seven out of 10 measures. These achievements were recognised in May 2019 as we received Water Company of the Year at the Water Industry Awards.

Specific to our operational performance we faced a large-scale incident in early December which resulted in significant impact to the customers and communities we serve in the Leighton Linlade area (see [page 53](#)). As a result, we missed the interruption to supply target, which led to a penalty from our regulator. The impact was significantly reduced through strong teamwork and dedication across the wider workforce.

The business has also played a leading role in driving industry-wide actions around the social and environmental purpose of a water company, becoming the first major utility to enshrine public interest in our Articles of Association in July 2019. This was recognised in April 2020 when we received the Queen's Award for Sustainable Development for the second time – having first secured this hugely prestigious award in 2015.

We had also submitted our Business Plan for PR19, guided by the views of 500,000 customers, proposing to invest £6.5 billion to safeguard the long-term resilience of water supplies across the region and meet the challenges of climate change. Our regulator took a different view of our needs and cost base and so, after deep reflection, the Board of Directors requested that Ofwat refer the Final Determination for 2020–2025 to the Competition and Markets Authority, with the long-term environmental and social prosperity of our region at the forefront of their decision.

## Remuneration outcomes in 2019/20

At the start of the year, the Board set targets that focused management on driving improvements across the Outcome Delivery Incentives (ODIs), efficiency and ensuring the financial health of the business. Overall financial performance for the year was good. As well as above-budget revenues, specific management focus around cost control delivered efficiencies in line with the stretching targets set by the Board. EBITDA was tracking to deliver just below the stretch target, but was subject to a very late adjustment for the impact of Covid-19. An exceptional provision was agreed with the auditors in response to a heightened level of bad debt risk. This adjustment reduced EBITDA to below the base target. After careful consideration, the Committee felt this adjustment related to exceptional one-off circumstances over which management had no control. It related to a highly unusual event, and the additional bad debt charge was agreed with the auditors after the year end had closed, meaning that management had no ability to mitigate the impact. Therefore, the Committee decided to make a payment which excluded the impact of the additional bad debt charge using their discretion within the scheme rules. The Committee was clear that this was a truly exceptional circumstance.



The Committee is satisfied that the Company achieved between the base and stretch target across the basket of ODI and Totex Delivery Index.

As a result of this performance, and personal performance of each individual Executive Director, bonus payments via the Deferred Bonus Plan for 2019/20 were between 71.9 per cent and 73.5 per cent of maximum.

On 31 March 2020, the performance period ended for long-term incentive awards granted in 2017. These awards were based on performance from 1 April 2017 to 31 March 2020 against the following two performance conditions:

- achievement of targeted average rate of return
- achievement of targeted savings against total expenditure (totex) as allowed in the Final Determination over the performance period.

The Committee determined that the Company had achieved the stretch target for the targeted savings against totex measure but had missed the targeted average rate of return, owing to the PR19 Final Determination. As a result of this performance, the percentage of award vesting is 50 per cent.

## Other key decisions

The Committee carried out a full review of executive incentive design in advance of the year beginning April 2020. This review was supported by external remuneration consultants and took into account market practice in the water sector and in the broader listed environment. The Company has also had regard to the guidance issued by Ofwat in its 'Putting the Sector back in Balance' position statement (issued in July 2018) to ensure that Anglian Water is at the forefront of customer-centred remuneration, and that 100 per cent of the performance contract would be related to measures directly benefiting customers.

The first awards made under the Deferred Bonus Plan (in June 2019) included a one-year performance condition that was based on the Company's annual performance contract as, at that time, the Final Determination for AMP7 had not been issued and the Company was not in a position to set targets that were aligned with the regulatory settlement.

For the 2020/2021 performance year, Deferred Bonus Plan Awards will incorporate three measures that take account of regulatory targets:

- **Customer satisfaction:** CMeX and DMeX see 'Delighted customers', [page 59](#).
- **Customer delivery:** a small number of ODIs that reflect the priorities determined by our customers to be the most important.
- **Customer efficiency:** a measure of financial efficiency shared with customers.

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

For Deferred Bonus Plan Awards made in 2020/21, the Remuneration Committee agreed that the payment tranches will remain as per the original design as detailed later in the report.

## Changes to the Board

Details of changes in the composition of the Board during the year can be found on [page 104](#) of the Corporate Governance Report. All relevant remuneration information for all Directors who served during the year is included in this report.

### Paul Whittaker

Chairman of the Remuneration Committee  
15 June 2020





## 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 and the environment. The Executive Directors' annual bonus, and therefore their overall remuneration, is directly linked to the achievement of these outcomes through the ODI measure. More detail is provided in Table 10 on [page 125](#).



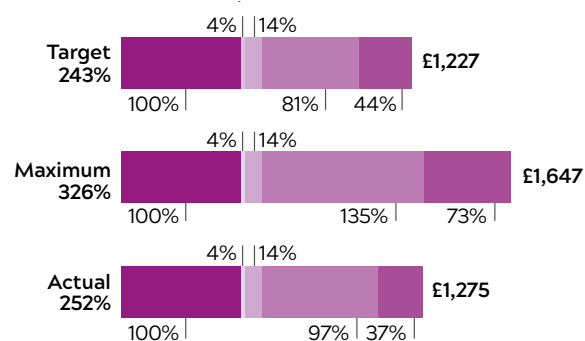
### Consideration of shareholder views

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

#### GRAPH 1

##### Peter Simpson Graph 1 (a)

This demonstrates the reduced LTIP payment as a result of Peter Simpson's decision to waive 50 per cent of his entitlement.

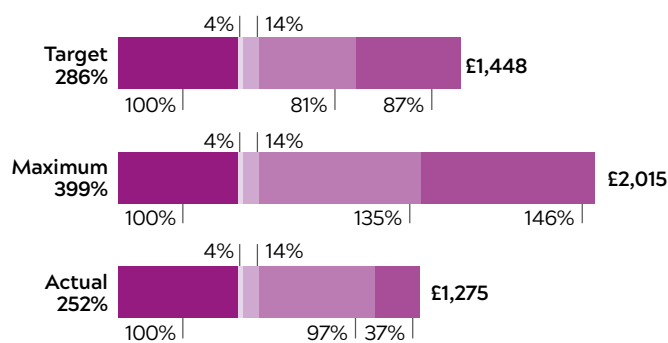


### Breakdown of executive remuneration over the year

Graph 1 below shows the proportion of payments related to variable and long-term performance for 2019/20. The design of the bonus arrangements includes both base and stretch targets. The graph therefore shows the percentage of base salary which could be earned for both minimum and maximum performance levels, as well as the actual outcome for 2019/20. The maximum level of award represents the reduced Long-Term Incentive Plan (LTIP) payment to be made to Peter Simpson as a result of his decision to waive his entitlement to 50 per cent of his initial award as detailed later in the report.

##### Peter Simpson Graph 1 (b)

This demonstrates the impact if Peter Simpson did not waive 50 per cent of his 2017 LTIP entitlement.



■ Base pay ■ Benefits ■ Cash in lieu of pensions ■ Deferred bonus scheme ■ Long-Term Incentive Plan (LTIP)

Note: In Graph 1 (a), the value of the 2017 LTIP award for Peter Simpson has been reduced to reflect his decision to waive his entitlement to half of his award. Further details are available later in the report. In both graphs the adjusted maximum remuneration for the LTIP calculation includes the uplift for the actual Average Rate of Return (ARR) across the performance period. This figure was not known at the start of the performance period but deemed to be the most appropriate to use to demonstrate actual remuneration against maximum remuneration.

Scott Longhurst and Steve Buck have not been included in these graphs as neither Director was in post for the full financial year.



## Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for AWS for the year that ended 31 March 2020, and any changes for the year ending 31 March 2021.

**TABLE 1**

Element and link to strategy	Operation and performance metrics	Maximum potential for 2019/20	Changes for 2020/21
<p><b>Base salary</b> To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.</p>	<p>Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by:</p> <ul style="list-style-type: none"> <li>- role, experience and performance</li> <li>- average change in broader workforce salary</li> <li>- total organisational salary budgets.</li> </ul> <p>Salaries are benchmarked against the FTSE 250 and other comparable utility companies.</p>	<p>Annual increases will not exceed the general level of increases for the Company's employees except where an individual changes roles, or where benchmarking indicates that an individual's salary requires realignment to remain competitive.</p>	<p>No changes proposed.</p>
<p><b>Benefits</b> To increase the economic security of employees, and recruit and retain employees.</p>	<p>Directors are entitled to private medical insurance, car allowance, and life assurance.</p> <p>Peter Simpson is also entitled to private fuel.</p>	<p><b>Peter Simpson:</b> 3.8% of base salary</p> <p><b>Scott Longhurst:</b> 3.9% of base salary</p> <p><b>Steve Buck:</b> 3.6% of base salary; 8.5% of salary was claimed for one-off relocation expenses</p>	<p>No changes proposed.</p>
<p><b>Deferred Bonus Plan</b> To reward achievement of annual financial and strategic business targets and delivery of personal objectives.</p>	<p>Payment determined by the Committee following the year end.</p> <p>Company targets set and reviewed annually and comprise a basket of financial and non-financial metrics, plus personal objectives. Awards for 2019/20 are based 86.7% on Company performance and 13.3% on personal objectives.</p> <p>Personal objectives relate to areas of the business over which the individual has influence.</p> <p>The Committee has the discretion to reduce bonus payouts in the event of material issues in relation to service, health and safety, quality, reputation and financial or regulatory performance.</p>	<p><b>Peter Simpson and Scott Longhurst</b> Maximum: 135% of base salary Target: 81% of base salary</p> <p><b>Steve Buck</b> Maximum of 110% of base salary Target: 66% of base salary</p>	<p>From 2020/21 the Deferred Bonus Plan Awards will be subject to three measures that are directly linked to 2020–2025 outcomes contained within the Final Determination.</p> <p><b>Customer satisfaction:</b> CMEx and DMeX.</p> <p><b>Customer delivery:</b> a small number of ODIs that reflect the priorities determined by our customers to be the most important.</p> <p><b>Customer efficiency:</b> a measure of financial efficiency shared with customers.</p> <p>In addition to the three measures above, a new opex (operational expenditure) threshold has been introduced for the 2020/21 Scheme year. Further details are available later in the report.</p> <p>The amount that will be earned on achieving the base targets has been reduced to 50% of the potential amount from 2020 onwards.</p> <p>These measures will replace the measures used in 2019/20, which were linked to the performance contract relevant for AMP6.</p> <p>Subject to the achievement of performance conditions, 50% of the award will be paid out at the end of Year 1 (2020/21), 25% at the end of Year 3 (2022/23) and 25% at the end of Year 4 (2023/24).</p>



Element and link to strategy	Operation and performance metrics	Maximum potential for 2019/20	Changes for 2020/21
<b>Pension</b> To attract and retain high-calibre individuals by providing good-quality pension arrangements.	AWS operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of Company contribution to pension may be made.	Peter Simpson receives a contribution of 12.8% of base salary up to a cap of £138,885 and a cash payment of 15% of base salary above this cap. As part of a contractual commitment, Scott Longhurst received a cash payment of 25% of salary. In line with the wider workforce, Steve Buck receives a total contribution of 12% of base salary, some of which he received in cash and some of which is paid into his pension scheme.	No changes proposed.

## Policy on recruitment remuneration

The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this report. The Committee also recognises that where it is in the interests of the Company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances.

In making any decision on the remuneration package for a new recruit, the Committee would seek to balance Company interests with the requirements of the new recruit, and would strive not to pay more than is necessary to achieve the recruitment.

TABLE 2

Element	Policy
<b>General</b>	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.
<b>Replacement awards</b>	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.
<b>Sign-on payments/recruitment awards</b>	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.
<b>Relocation policies</b>	Where an individual is relocating to take up the role, the Company may provide one-off benefits such as reasonable relocation expenses based on actual costs incurred.



## Policy on payment for loss of office

TABLE 3

Component	Policy on exit
General	No Executive Director has any contractual rights to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance will not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors, including the Executive Director's obligation to mitigate their own loss.
Base salary, pension and benefits	Salary, pension and benefits will be paid over the notice period. The Committee has discretion to make a payment of salary in lieu of notice.
Annual incentive	The rights of Executive Directors to the payment of a deferred bonus in respect of the financial year in which the termination occurs are governed by the rules of the Deferred Bonus Plan. Where the reason for termination is a 'Good Leaver' reason (as defined in the Plan), the Director will be entitled to a reduced payment to reflect the Director's actual period of service in that financial year.
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 chose to preserve an award, any payment would normally be pro-rated to reflect how much of the performance period the individual had worked. Further reductions might also be applied if appropriate. From 2019 onwards, the organisation has ceased to award LTIPs.

## Service contracts

All Executive Directors appointed to the Board are currently employed on service contracts of no fixed term, with a notice period of 12 months by the Company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in the remuneration policy. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Committee. Currently, each Executive Director participates in the Deferred Bonus Plan, which is described further in the relevant sections of this report.

Table 4 shows the start date for each Executive Director, and also shows the end date for Scott Longhurst.

TABLE 4

	Start date as Executive Director	End date as Executive Director
Peter Simpson	18 November 2004	N/A
Scott Longhurst	18 November 2004	31 July 2019
Steve Buck	1 August 2019	N/A

Note: Although Scott Longhurst stepped down from the Board on 31 July 2019, he continued to be available throughout the year to support a range of activities until his employment ended on 31 March 2020.

James Bryce, Niall Mills and Duncan Symonds represent the ultimate owners of the Company. Consequently, they do not have letters of appointment or service contracts, nor do they receive a fee from the Company for their services. Details of the letters of appointment in respect of the Chairman and Independent Non-Executive Directors are detailed in Table 5 on [page 122](#).

## External appointments

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

## Consideration of employment conditions elsewhere in the Company

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

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





## Employee consultation

While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels, and takes these into account when reviewing executive pay.

The Company's 2019 Corporate Governance Code requires the Board to understand the views of the Company's key stakeholders. To meet these requirements, at the start of the financial year the Board appointed Niall Mills to be the Board representative responsible for engagement with the workforce. Further information on the activities undertaken by Niall Mills during the year can be found in the section 172 statement on [pages 22](#) and [27](#).

## Chairman and Independent Non-Executive Directors

### Terms of appointment

The Chairman and the Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of these letters of appointment are available on the Anglian Water website.

Dates of letters of appointment and expiry of current terms for those who have served as Chairman and other Independent Non-Executive Directors during the year are shown in Table 5.

These appointments may be terminated with six months' notice by either party. No compensation is payable to the Chairman or Non-Executive Directors if the appointment is terminated early.

**TABLE 6 – Fee policy**

Element and link to strategy	Operation and performance metrics	Maximum potential for 2019/20	Changes for 2020/21
<b>Fees</b> To attract high-calibre individuals to these roles and reflect the level of responsibility and time commitment involved.	For the Chairman and Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size.  Fees may include additional payments to Non-Executive Directors who act as Senior Independent Non-Executive Directors or chair Board committees, to reflect the significant additional responsibilities attached to these duties.  The Chairman and the Non-Executive Directors do not participate in any of the Company's incentive or pension schemes.	N/A	No change.
<b>Benefits</b>	The Company covers the cost of travel between the Directors' home and office when carrying out duties. This includes payment of any tax due. Normal place of work is deemed to be the Company's head office in Huntingdon. Travel to any other location is reimbursed as normal business travel expenses.	N/A	No change.

Note: 60 per cent of the Chairman's costs are charged to the Company. 100 per cent of the Independent Non-Executive Directors' costs are charged to the Company.

**TABLE 5**

	Date of first appointment	Date of expiry of current terms
Dame Polly Courtice	1 April 2015	31 March 2021
John Hirst	1 April 2015	31 March 2021
Paul Whittaker	14 October 2013	13 October 2022
Natalie Ceeney	14 May 2018	13 May 2021
Zarin Patel	31 October 2018	30 October 2021

Stephen Billingham stepped down as Chairman on 31 March 2020, and was replaced by John Hirst who moved from his role as Senior Independent Director. Dame Polly Courtice became Senior Independent Director, and Chair of the Nomination Committee.

## Policy for determination of fees

The fees for Non-Executive Directors are reviewed by the Chairman, and any changes are approved by the Board. Under the Articles of Association of the Company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the Company. Non-Executive Directors do not vote on their own remuneration.

The Chairman's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chairman is not involved in setting his own remuneration.



## Annual Report on Remuneration

**TABLE 7 – Single total remuneration figure (audited)**

	TOTAL PAID BY ALL AWG COMPANIES (£)													
	Base pay		Taxable benefits <sup>1</sup>		Pension including cash in lieu <sup>2</sup>		Annual bonus <sup>3</sup>		Deferred Bonus <sup>3</sup>		LTIP <sup>4</sup>		Total	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
Peter Simpson <sup>5</sup>	490,560	505,277	19,502	19,106	70,445	72,559	539,027		490,720	801,576	187,658	1,921,110	1,275,320	
Scott Longhurst <sup>6</sup>	490,560	168,426	19,009	6,938	122,640	42,106	548,035		490,720	801,576	375,315	1,981,820	1,083,505	
Steve Buck <sup>7</sup>		263,333		31,794		27,776	150,000		319,492				792,395	
<b>Total Executive Directors</b>	<b>981,120</b>	<b>937,036</b>	<b>38,511</b>	<b>57,838</b>	<b>193,085</b>	<b>142,441</b>	<b>1,087,062</b>	<b>150,000</b>	<b>0</b>	<b>1,300,932</b>	<b>1,603,152</b>	<b>562,973</b>	<b>3,902,930</b>	<b>3,151,220</b>

Base pay and taxable benefits for Scott Longhurst are apportioned for the year up to 31 July 2019, the date that he stepped down from the Board. His LTIP payment reflects the entire three-year period, and his Deferred Bonus is the full 12 months. Steve Buck's Deferred Bonus payment reflects the amount paid for the full performance year. All other figures for Steve Buck are apportioned from 1 August 2019, the date that he joined the Board.

- Benefits include private health insurance, car allowance and life assurance for all Executive Directors. In addition, Peter Simpson's includes private fuel. Steve Buck's figure also includes £22,500 relocation expenses that were reimbursed in line with policy agreed as part of his appointment.
- Pension costs for Peter Simpson represent cash payments in lieu of contractual commitments as he does not save into the pension scheme. Pension costs for Steve Buck represent a mixture of cash payments and Company contributions made into the pension scheme.
- The annual bonus figure for 2018/19 has been updated owing to a true-up exercise where the Committee reviewed the ODI outcomes for 2018/19 for metrics not available at the time of the initial payment. The 2019/20 annual bonus figure for Steve Buck includes a payment of £150,000 that was approved as part of his joining arrangements to compensate for loss-of-office payments.
- This long-term incentive payment relates to the 2016 and 2017 awards for the three-year performance period ending in March 2019 and 2020 respectively. Both include the uplift of the base award by the average rate of return delivered over the performance period, which is a feature of the scheme designs.
- For Peter Simpson, the table above shows 100 per cent of remuneration costs, 70 per cent of all remuneration costs are paid by Anglian Water Services (AWS), with the remaining 30 per cent paid by other parts of the AWG Group.
- For Scott Longhurst, 100 per cent of long-term incentive costs and 60 per cent of basic salary, benefits, pension and bonus costs are paid by AWS, with the remaining proportion paid by other parts of the AWG Group.
- For Steve Buck, the table above shows 100 per cent of remuneration costs, 75 per cent of all remuneration costs are paid for by AWS, with the remaining 25 per cent paid by the AWG Group.

### Base pay

When assessing the pay awards for each of the Executive Directors and senior managers, the Committee considers the remuneration increases for employees throughout the Group. The Board agreed that there would be a 3 per cent pay increase in line with the wider workforce for Executive Directors from April 2019.

**TABLE 8**

**Base pay for Executive Directors effective 1 April 2019 (£)**

Peter Simpson	505,277
Scott Longhurst	505,277
Steve Buck	395,000

Steve Buck's base pay is shown effective 1 May 2019, the date he started employment with the Company.

### Deferred Bonus Plan

The Deferred Bonus Plan was implemented in 2019/20 following a review by the Committee of the previous short- and long-term incentive schemes. The design of the performance condition which underpins the 2020 awards

is based on the achievement of outcomes that customers have indicated are most important to them. No element of the Award is directly linked to securing shareholder returns, as the Committee believes that achieving outcomes that are important to customers will be in all stakeholders' long-term interests.

Subject to the achievement of performance conditions, 50 per cent of the Deferred Bonus Plan Award will be payable at the end of Year 1 (2020), with 25 per cent payable at the end of Year 3 (2023) and 25 per cent payable at the end of Year 4 (2024).

As a result of the transition across regulatory cycles between 2019/20 and 2020/21, awards made under the Deferred Bonus Plan in 2019/20 included a one-year performance condition which was based on the Company's annual performance contract.

The performance condition which underpinned the 2019/20 Deferred Bonus Plan Awards was designed to incentivise performance against a number of financial and non-financial Company measures, including personal objectives for each Executive Director. At the start of the year, the Committee chose measures that reflected the key priorities of the business, and set 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 relation to the deferred elements of the Award (payable in 2022 and 2023), the Committee is also entitled to reduce payments in circumstances where there have been material issues in respect of service, quality, health and safety, reputation, and financial or regulatory performance. The Committee may also claw back bonus already paid where, in their judgement, there has been serious misconduct.

35 per cent of the 'corporate' element of the 2019 award depends upon the achievement of financial measures (with both the EBIDTA and cash flow measures comprising 17.5 per cent each), with 65 per cent weighted towards non-financial measures (35 per cent was allocated to ODI outcomes and 30 per cent associated with efficient totex delivery, explained below).

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

The ODI scorecard comprises:

- the Service Incentive Mechanism (SIM) (explained below)
- reduction in total number of minutes customers' water supplies are interrupted
- reducing water lost through leakage
- reducing pollution incidents
- increasing the number of bathing waters in our region classed as excellent
- reducing the number of properties affected by low water pressure
- reducing the number of properties flooded internally and externally from sewers
- reducing the number of contacts from customers about drinking water quality and acceptability (including appearance, taste and odour)
- customer perceptions of affordability, fair bills and value for money
- improving water efficiency (per property consumption).

The SIM has two parts: a qualitative element based on surveys of customer satisfaction, and a quantitative element (which reflects the number of customer complaints and 'unwanted' customer contacts such as written complaints and telephone calls classed as unnecessary). Ofwat conducts customer satisfaction surveys and publishes the scores of all water and sewerage companies in England and Wales for both the qualitative and quantitative measures. Consistent with Ofwat's approach, 75 per cent of this bonus element is based on the qualitative measure and 25 per cent on quantitative.

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.

## Outcomes for 2019/20

### Non-financial measures (maximum 65 per cent of the 2019 performance contract)

Performance in the year was impacted by the Leighton Linlade incident, while the SIM/CMeX metric, which carries most points in the ODI performance contract, was at the base level. We also achieved stretch targets for low pressure, internal and external flooding.

On leakage, although our performance remains sector-leading, we ended the year in the range between the base and the stretch target.

Regarding the new Customer Measure of Experience (CMeX) measure, Ofwat published anonymous comparative data for the year. Using this data, it was possible to calculate our performance using the AMP7 methodology (which excludes Net Promoter Score). We ended the year as the fourth-placed water and sewerage company. Ofwat also calculated a SIM score that also placed Anglian Water fourth among the water and sewerage companies.

The minimum threshold for interruptions to supply, per property consumption and bathing waters, were not met in this performance period.

Table 9 shows the scoring mechanism and the ODI outcomes for 2019/20 detailing the Company performance for each ODI measure.

In relation to totex delivery, we have continued to exceed our challenging efficiency targets for the year and the AMP overall. Within this was a small overspend against the Year 5 totex plan, meaning for this element, the award reflected performance between base and stretch targets.

### Financial measures (35 per cent of the 2019 performance contract)

Overall, financial performance for the year was good. Specific management focus around cost control at a totex level delivered efficiencies in line with the plan during the year and the AMP overall. The EBITDA performance as reported earlier in the report was on track to deliver in full. However, due to an exceptional one-off adjustment for a Covid-19 bad debt provision, the base EBITDA target was missed. After careful consideration, the Committee agreed to exercise its discretion to discount the effect of this one-off adjustment, as it considered, that the circumstances giving rise to the additional bad debt provision were unprecedented and that management could not have taken any action to mitigate the impact.

Free cashflow (defined as operating cash flow less interest and capital maintenance payments) has remained strong and was above the level for maximum payout of this measure.



TABLE 9

	Threshold	Base	Stretch	Outcome
SIM position (position among water and sewerage companies)	5 ●	4 ●	●	4th
Interruptions to supply (minutes)	-	12 ●	●	16
Leakage (megalitres per day)	184 ●	182 ●	●	182
Pollution incidents (number of Category 3 incidents)	298 ●	219 ●	●	253
Bathing waters (number of bathing waters rated excellent)	-	33 ●	●	30
Flooding internal (number of properties)	-	448 ●	●	258
Water quality complaints (number of complaints per 1,000 customers)	-	1.23 ●	●	1.15
Affordability (% improvement in CCWater tracker survey)	-	2% ●	●	1%
Fairness of bills (% improvement in CCWater tracker survey)	-	2% ●	●	2%
Flooding external (number of properties)	-	6,159 ●	●	3,155
Low pressure (number of properties at risk of persistent low pressure)	-	257 ●	●	148
Drinking water quality (% mean zonal compliance)	-	99.95 ●	●	99.96
Per property consumption (litres per property/household per day)	-	307 ●	●	316
Value for money (% improvement in CCWater tracker survey)	-	2% ●	●	-1%

Note: The results of the Fair Bills, Affordability and Value for Money ODIs had not been received at the point when 2019/20 bonus payments were agreed, and will be presented to the Remuneration Committee later in 2020 for its approval for payment in June 2021. These results have been counted as zero for the purposes of the Bonus Plan.

## Outcomes for Executive Directors (audited)

The Committee recommended to the Board that the extent to which overall Company performance targets had been achieved was 70.7 per cent for all 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 2019/20 were between 71.9 per cent and 73.5 per cent of maximum.

Table 10 details the relationship between each of these performance measures and how it relates to the bonuses achieved by each Executive Director in the 2019/2020 performance year.

TABLE 10

	Weighting for 2019/20 (as % of base pay)	Threshold	Base	Stretch	Outcome
<b>Peter Simpson</b>					
<b>Financial measures</b>	<b>41.0</b>	●	●	●	<b>36.3%</b>
Free cash flow	20.5	●	●	●	20.5%
EBITDA	20.5	●	-	-	15.8%
<b>Non-financial measures</b>	<b>76.1</b>	●	●	-	<b>46.5%</b>
Outcome Delivery Incentives (ODIs)	41.0	●	●	-	17.2%
Totex Delivery Index (TDI)	35.1	●	●	●	29.3%
<b>Personal objectives</b>	<b>18.0</b>	●	●	●	<b>14.4%</b>
<b>Total % award payable</b>	<b>135.0</b>	-	-	-	<b>97.1%</b>
<b>Maximum award payable</b>	-	-	-	-	<b>£682,124</b>
<b>Deferred bonus paid</b>	-	-	-	-	<b>£490,720</b>





Scott Longhurst	Weighting for 2019/20 (as % of base pay)	Threshold	Base	Stretch	Outcome
<b>Financial measures</b>	<b>41.0</b>	●	●	●	<b>36.3%</b>
Free cash flow	20.5	●	●	●	20.5%
EBITDA	20.5	●	-	-	15.8%
<b>Non-financial measures</b>	<b>76.1</b>	●	●	-	<b>46.5%</b>
Outcome Delivery Incentives (ODIs)	41.0	●	●	-	17.2%
Totex Delivery Index (TDI)	35.1	●	●	●	29.3%
<b>Personal objectives</b>	<b>18.0</b>	●	●	●	<b>14.4%</b>
<b>Total % award payable</b>	<b>135.0</b>	-	-	-	<b>97.1%</b>
<b>Maximum award payable</b>	-	-	-	-	<b>£682,124</b>
<b>Deferred bonus paid</b>	-	-	-	-	<b>£490,720</b>

Steve Buck	Weighting for 2019/20 (as % of base pay)	Threshold	Base	Stretch	Outcome
<b>Financial measures</b>	<b>32.2</b>	●	●	●	<b>28.5%</b>
Free cash flow	16.1	●	●	●	16.1%
EBITDA	16.1	●	-	-	12.4%
<b>Non-financial measures</b>	<b>59.8</b>	●	●	-	<b>36.5%</b>
Outcome Delivery Incentives (ODIs)	32.2	●	●	-	13.5%
Totex Delivery Index (TDI)	27.6	●	●	●	23.0%
<b>Personal objectives</b>	<b>18.0</b>	●	●	●	<b>15.8%</b>
<b>Total % award payable</b>	<b>110.0</b>	-	-	-	<b>80.9%</b>
<b>Maximum award payable</b>	-	-	-	-	<b>£434,500</b>
<b>Deferred bonus paid</b>	-	-	-	-	<b>£319,492</b>

Note: The results of the Fair Bills, Affordability and Value for Money ODIs had not been received at the point when 2019/20 bonus payments were agreed, and will be presented to the Remuneration Committee later in 2020 for its approval for payment in June 2021. These results have been counted as zero for the purposes of the Bonus Plan, and should base targets or above be achieved, additional payments will be made for these elements.

## Outcomes for Executive Directors (audited) LTIP

Following the implementation of the Deferred Bonus Plan in 2019/20, awards under the LTIP are no longer made. The AWG LTIP was designed to reward and incentivise senior executives who could influence the long-term performance of the Company and deliver sustained performance improvements. Selected senior employees were granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a specific performance period. In order to align the interests of executives with those of shareholders, the payment on vesting can be uplifted by the average annual rate of return over the performance period.

Given the significant challenges faced by many owing to the Covid-19 pandemic, Peter Simpson indicated that he wished to make a significant contribution to the Employee Assistance Fund, which was set up to support employees across the Group suffering hardship as a result of the crisis. Following discussions with the Chairman, Peter Simpson agreed to waive his entitlement to 50 per cent of his 2017 LTIP award. A contribution of £212,000 was made to the fund on Peter Simpson's behalf, with the balance of the award payment being subject to the Board's decision regarding the extent to which the LTIP performance conditions had been achieved (which was determined on 29 May 2020), and therefore this is the amount that is used for calculations throughout the report.



## Outcomes in 2019/20

The 2017 LTIP award vested in May 2020. Table 11 shows the performance measures and weightings for the awards made in 2017. The performance period ran from 1 April 2017 to 31 March 2020.

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 the totex efficiency measure, but had missed the stretch target on the rate of return measure, given that the Company's valuation had been significantly impacted by the PR19 Final Determination.

The Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 50 per cent. Award values are uplifted by the average rate of return over the performance period. For the 2017 LTIP this was 2.01 per cent.

The conditions attaching to the 2017 LTIP award give the Committee 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 agreed that there had been no material performance issues over the three-year performance period warranting the use of this discretion.

TABLE 11

	Weighting as % of base pay		Actual performance	
	Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer	Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Achievement of targeted average rate of return over the performance period	75%	37.5%	0%	0%
Achievement of targeted savings against totex allowed in the Final Determination over the performance period	75%	37.5%	75%	37.5%

TABLE 12 Payments to Executive Directors during 2019/20 and the maximum value of unvested long-term incentives (audited) – awards prior to 2019/20

	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2019 (£)	Base value of awards granted during the year (£)	Base value of awards held at 31 March 2020 (£)	Value of awards vesting on 31 March 2020 (£)
Peter Simpson <sup>1</sup>	2017 LTIP	1 April 2017 to 31 March 2020	Rate of return – 0%; totex outperformance – 50%	735,840	0	367,920	187,658
	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return – TBC; totex outperformance – TBC	735,840	0	735,840	0
Scott Longhurst <sup>2</sup>	2017 LTIP	1 April 2017 to 31 March 2020	Rate of return – 0%; totex outperformance – 50%	735,840	0	735,840	375,315
	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return – TBC; totex outperformance – TBC	490,560	0	490,560	0
Chris Newsome	2017 LTIP	1 April 2017 to 31 March 2020	Rate of return – 0%; totex outperformance – 50%	130,900	0	130,900	66,766
	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return – TBC; totex outperformance – TBC	65,450	0	65,450	0
Jean Spencer	2017 LTIP	1 April 2017 to 31 March 2020	Rate of return – 0%; totex outperformance – 50%	123,592	0	123,952	63,038
	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return – TBC; totex outperformance – TBC	61,796	0	61,796	0

Notes: Jean Spencer and Chris Newsome will receive two-thirds of their original 2017 LTIP and one-third of the 2018 LTIP as per the scheme rules and their leaving arrangements. Scott Longhurst will receive two-thirds of his original 2018 LTIP. All figures are adjusted for this in this table.

1 As explained earlier in the report, the maximum award for the 2017 LTIP has been reduced following Peter Simpson's request to waive 50 per cent of the original LTIP award. The request was accepted by the Committee. The cost of Peter Simpson's LTIP awards are split between the Company and other parts of AWG as described in Table 7.

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



## Payments to Executive Directors during 2019/20 and the value of Deferred Bonus Plan Awards (audited) – from 2019/20

Table 13 shows the value of the payments made under the 2019 Deferred Bonus Plan Award in the performance year and subsequent conditional deferred payments that are due in Year 3 (2022) and Year 4 (2023) in line with the provisions of the Award Deed. The breakdown of the 2019 payment can be found in Table 10. All future payments depend on the satisfaction of the additional performance conditions, and payments will be uplifted by CPIH. The additional performance conditions are:

- our assets must be maintained in good condition
- good water quality must be maintained as measured by Drinking Water Inspectorate (DWI) statistics
- the Company must maintain good environmental performance
- there must be no material damage to the reputation of the Company
- there must be no significant deterioration in health and safety performance.

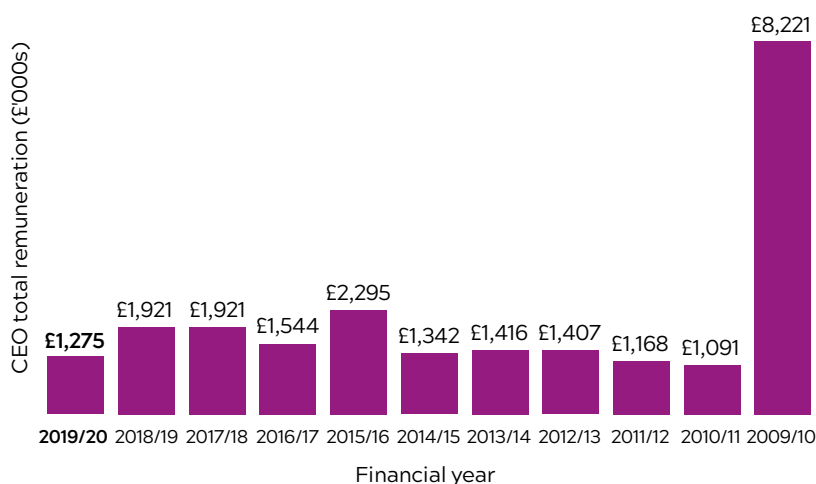
The Committee will review performance in relation to these additional measures at the end of Year 3 and again at the end of Year 4, and has discretion to reduce the amounts payable in the event that the performance conditions are not met in full.

**TABLE 13**

		Performance period	Performance measure and achievement	Base value of conditional payments held at 31 March 2020 (£)	Value of awards vesting on 31 March 2020 (£)
<b>Peter Simpson</b>	2019	1 April 2019 to 31 March 2023	Personal objectives and leadership behaviours – 14.4% Financial and operational targets – 82.7%	682,124	490,720
<b>Scott Longhurst</b>	2019	1 April 2019 to 31 March 2023	Personal objectives and leadership behaviours – 14.4% Financial and operational targets – 82.7%	682,124	490,720
<b>Steve Buck</b>	2019	1 April 2019 to 31 March 2023	Personal objectives and leadership behaviours – 15.8% Financial and operational targets – 65%	434,500	319,492

Note: Performance measures and achievements reflect the per cent award relevant for the payment achieved in 2019/20, excluding future payments subject to secondary performance conditions.

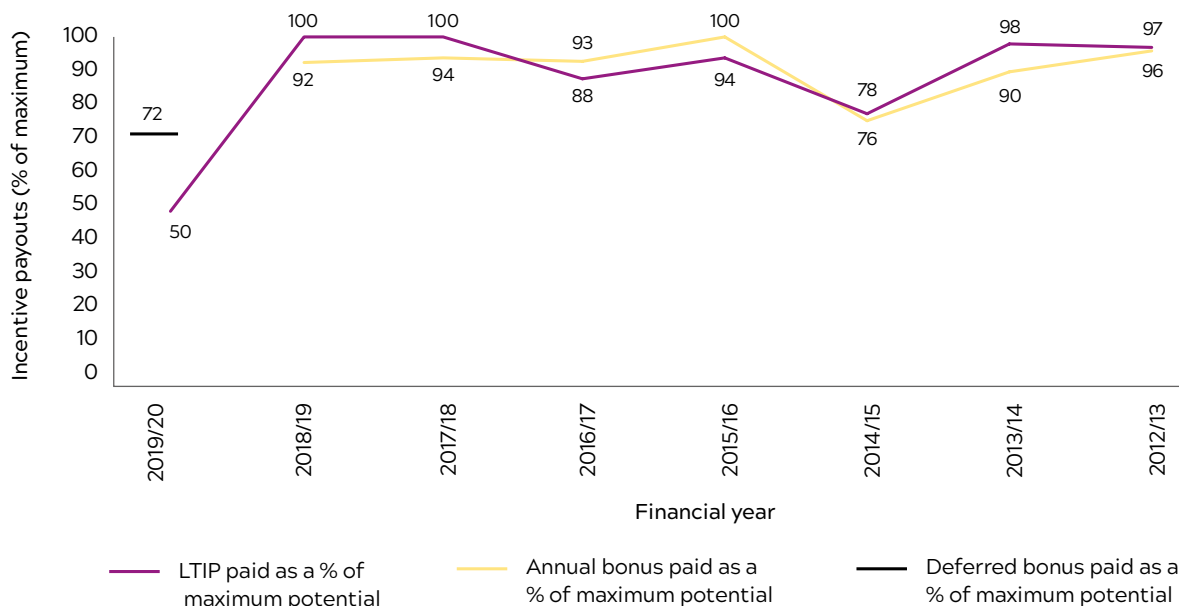
**GRAPH 2 – Change in CEO remuneration**



Notes: Jonson Cox stepped down as CEO of the Anglian Water Group of companies on 29 January 2010. From that date, Peter Simpson became Managing Director of AWS. In addition to his role as Managing Director of AWS, Peter Simpson was appointed Group CEO in October 2010. Jonson Cox's LTIP payment in 2009/10 related to a long-term incentive award made under the AWG 2007 Executive Director Long-Term Incentive Plan, and covered performance over a number of years.



**GRAPH 3 – Change in percentage of award of CEO performance-related pay**



Note: The annual bonus and LTIP were replaced by the Deferred Bonus Plan at the start of 2019. 2019/20 LTIP payments are based on the 2017 LTIP award.

### Remuneration arrangements for departing Executive Directors

The table below shows the remuneration arrangements for Scott Longhurst, who left the Company on 31 March 2019.

**TABLE 14**

Remuneration element (£)	Scott Longhurst
Salary and benefits <sup>1</sup>	428,588
Payment in lieu of notice <sup>1</sup>	329,443
2017 LTIP <sup>2</sup>	375,315

- All salary, benefits and payments in lieu of notice were paid in line with contractual entitlements. Benefits included cash allowance in lieu of pension, car allowance, and all other taxable benefits. Salary and benefits were paid up to 31 March 2019 in line with contractual commitments and reflect payments made post his resignation from the Board up until his termination date.
- In line with the scheme rules, as a good leaver Scott Longhurst was eligible for the full 2017 LTIP award and two-thirds of the 2018 LTIP award but no further payments for the Deferred Bonus Plan.

### AWG Co-Investment Plan

The Co-Investment Plan (the Plan) was established in March 2015 and was designed to operate annually throughout AMP6. Senior executives are able to make one annual investment out of net annual bonus payments and payments in respect of historic LTIP awards vested in the applicable year, to a maximum of £1 million over the AMP period. Funds are locked in for the whole AMP unless the Remuneration Committee exercises its discretion to waive this condition (which will only occur in exceptional circumstances).

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

There were no investments by Executive Directors during the financial year. The Plan will close at the end of June 2020, with funds and interest returned to Executive Directors in line with the Plan rules. Table 15 illustrates the sums invested in the Plan.





TABLE 15

	Investment year	Original investment (£)		Investment year	Original investment (£)
Peter Simpson	2015	417,000	Chris Newsome	2015	100,000
	2016	513,000		2016	100,000
	2017	70,000		2017	100,000
	2018	-		2018	-
	2019	-		2019	-
	<b>Cumulative</b>	<b>1,000,000</b>		<b>Cumulative</b>	<b>300,000</b>
Scott Longhurst	2015	428,000	Jean Spencer	2015	50,000
	2016	572,000		2016	80,000
	2017	-		2017	150,000
	2018	-		2018	-
	2019	-		2019	-
	<b>Cumulative</b>	<b>1,000,000</b>		<b>Cumulative</b>	<b>280,000</b>

Jean Spencer and Chris Newsome stepped down from the Board on 11 August 2018 and Scott Longhurst stepped down from the Board on 31 July 2019.

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

	TOTAL REMUNERATION ALL AWG (£)			
		2019/20		2018/19
	Fees	Benefits <sup>1</sup>	Total	Total
Stephen Billingham <sup>2</sup>	300,000	407	300,407	300,630
Dame Polly Courtice	51,500	-	51,500	50,103
John Hirst	72,100	-	72,100	70,000
Paul Whittaker	61,800	-	61,800	60,000
Zarin Patel	51,500	-	51,500	21,024
Natalie Ceeney	51,500	171	51,671	44,422
<b>Total Non-Executive Directors</b>	<b>588,400</b>	<b>578</b>	<b>588,978</b>	<b>546,179</b>

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

2 60 per cent of Stephen Billingham's costs are met by Anglian Water Services Limited, with the remainder paid by Anglian Water Group. Stephen Billingham retired on 31 March 2020.

## Fees

The fees were reviewed and increased by 3 per cent in line with policy and the increase for the wider workforce.



## Implementation of remuneration policy in 2020/21

### 2020/21 base pay

The Committee reviewed current base pay arrangements and agreed that there would be no change to base pay for Executive Directors and Independent Non-Executive fees. Pay discussions with trade unions were under way but were not completed due to the difficulties caused by the Covid-19 pandemic. By agreement, a non-consolidated payment of £550 was made to the wider workforce in April. All Executive Directors agreed to waive the non-consolidated payment and these funds were allocated to the Employee Assistance Fund (which was set up to support employees during the Covid-19 pandemic), along with Peter Simpson's further contribution referred to above.

### 2020/21 Deferred Bonus Plan Award

The Committee has reviewed the design of the performance conditions attached to awards under the Deferred Bonus Plan (which was implemented in 2019). Given the circumstances of the current pandemic and the uncertainty caused, for one year only the personal element of the performance condition has been increased for Executive Directors to allow them to have meaningful objectives related to their leadership through this period and to their contribution to ensure the financial stability of the entire Group.

A higher percentage of the award is therefore to be weighted on accountabilities across the wider Group. For both Executive Directors this will be:

- Company-specific customer-focused performance measures – 60 per cent
- personal/leadership objectives and other Group accountabilities – 40 per cent (50/50 split across the two areas).

Following extensive customer engagement to ascertain their key priorities, analysis of the Final Determination set by Ofwat, and the change in accountabilities following the appointment of the new Group CFO, the following changes have been made to the corporate element of the bonus.

The performance conditions that underpin the 2020 Deferred Bonus Plan Awards will have three measures directly aligned to the targets outlined in our Final Determination with Ofwat.

It was agreed by the Committee that for the 2020 awards the weighting for each of these measures should be as set out below:

#### Customer satisfaction: CMeX and DMeX (25 per cent)

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

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

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

#### Customer delivery: (40 per cent)

This is linked to the Company's performance in relation to a small number of ODIs which our customers determined to be of greatest importance to them. The table below details the ODIs that will be measured.

TABLE 17

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



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

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

For the 2020 awards, due to the extreme cost pressures, an additional opex threshold applies before any payment can be made. The Company must achieve its base opex target, as agreed with the Board, to unlock payment at the end of the performance period. If the Company meets its base opex target but fails to achieve its stretch target, the overall payment will be reduced.

Under this mechanism, deferred payments could still be made in future years even if the initial payment is not made.

At the end of the performance year, achievement of the personal and customer-focused performance conditions will be assessed and, subject to the satisfaction of the opex target referred to above, the appropriate payment relating to the first tranche (50 per cent) will be made. The remaining half will be deferred and paid out in two equal tranches, two years and three years after the first payment and therefore three and four years after the performance period began. These deferred payments will also be dependent on the satisfaction of a number of serviceability measures being sustained over the period of the scheme.

## Illustration of the deferred bonus potential for the Executive Directors

TABLE 18

	Base salary as 1 April 2020 (£)	Deferred bonus potential 2020/21 (per cent of base salary)
Peter Simpson	£505,277	270%
Steve Buck	£395,000	220%

Note: For the 2020/21 potential, depending on the outcomes assessed by the Committee as achieved for the measures, 50 per cent will be paid in cash at the end of the initial performance period (Year 1, payable in 2021), 25 per cent will be deferred for a further two-year period (Year 3, payable in 2023) and 25 per cent will be deferred for a further three-year period (Year 4, payable in 2024).

## Illustrations of application of the remuneration policy

The charts in Table 19 show the weighting as a percentage of base pay for the Executive Directors’ total potential remuneration, which could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2020/21.

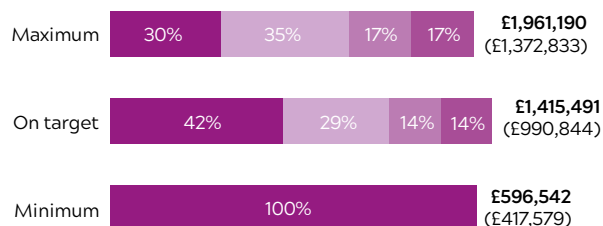
In these charts:

- Fixed remuneration is the minimum payable, and is made up of base pay for 2020/21 plus the value of cash in lieu of pension and benefits.
- The deferred bonus is split into Year 1 (2021), Year 3 (2023) and Year 4 (2024) payments.
- The ‘On target’ bar in the charts shows the percentage of fixed remuneration that could be earned for achieving threshold levels of performance plus the minimum threshold performance for the deferred bonus.
- Maximum performance would result in the maximum deferred bonus payment. The maximum bars in all the charts include the Deferred Bonus Award granted in 2020/21, which are due to vest in subsequent years.

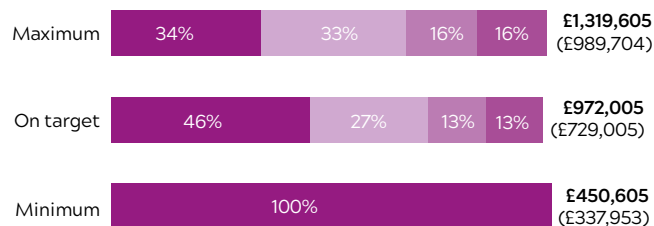


TABLE 19

## Peter Simpson



## Steve Buck



■ Fixed ■ Long-term Year 1 potential ■ Long-term Year 3 potential ■ Long-term Year 4 potential

The figures in brackets show the amount of total remuneration costs that will be paid for by Anglian Water Services (AWS), with the rest paid for by other parts of the AWG Group. Peter Simpson will have 70 per cent of his costs and Steve Buck 75 per cent of his costs paid for by AWS.

## AWG Co-Investment Plan – 2020

A new Co-Investment Plan (the Plan) was approved by the Board of Anglian Water Group in May 2020 and is designed to operate annually throughout AMP7. As outlined earlier in the report, senior executives are able to make one annual investment out of net Deferred Bonus Award payments received in the applicable year, to a maximum of £1 million over the period. Funds are locked in for the whole AMP, with the Remuneration Committee having discretion to waive this condition only in exceptional circumstances.

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

## Conditions in the wider Group

### Percentage change in CEO remuneration compared with other employees

Table 20 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2018/19 to 2019/20 and follows the relevant guidelines. 'Other employees' are the employees of both the Company and AWG Group Limited who have been employed for the full 2019/20 year. This group includes members of the Company's Management Board.

TABLE 20

	% change in CEO remuneration, 2019/2020 vs 2018/2019	% change in remuneration for other employees, 2019/2020 vs 2018/2019
Base pay <sup>1</sup>	3.00%	5.55%
Taxable benefits <sup>2</sup>	-2.03%	14.91%
Annual bonus/ Deferred bonus <sup>3</sup>	-8.96%	-6.45%

- Includes Company-wide annual pay review and salary progression for personal development and new skills. For the wider workforce, the increase also reflects salaries of new joiners over the period.
- The slight decrease in taxable benefits for the CEO is owing to a difference in fuel allowance paid in 2018/19 in comparison to 2019/20. The increase for 'other employees' relates to the following factors:
  - a one-off financial award was paid to all employees for great customer service as recognised by Ofwat
  - an increase in the benefit in kind for company cars in line with HMRC emission-based system
  - an increase of around 100 employees receiving a cash for cars allowance for the first time.
- The structure of the CEO's bonus arrangements changed between 2018/19 and 2019/20 with the introduction of the new Deferred Bonus Plan, which replaces the previous annual bonus and LTIP scheme. As detailed earlier in the report, Peter Simpson agreed to waive his entitlement to 50 per cent of his 2017 LTIP award. A contribution of £212,000 was made to the Covid-19 Employee Assistance Fund on Peter Simpson's behalf. The impact of these changes means that it is difficult to accurately compare year on year until next year's report. However, the reduction in year-end performance for the deferred bonus relating to ODI performance and the low outturn performance in the 2017 LTIP are both factors in the overall reduction. His deferred bonus includes amounts paid in the year and those payable in future years should secondary performance conditions be met as outlined earlier in the report.

In relation to 'other employees', the majority of employees are eligible for a bonus as part of one of the Anglian Water Bonus Plans. The decrease in the percentage change in annual bonus for the other employees is owing to a reduction in ODI and business unit performance across different Bonus Plans.





Table 21 shows the CEO's total remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent remuneration of AWG employees.

There is an overall significant reduction across all percentiles when comparing the remuneration of the CEO and wider workforce.

TABLE 21

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

Note: All figures included in the ratio calculations were based effective from 31 March of each year. The methodology used was Option A under the Corporate Governance Code as it was deemed to be the most robust, transparent and accurate method available.

The figures in the table rely on estimated figures for the CEO LTIP and annual bonus figures, and employee annual bonus figures at the time of writing.

All pay elements have been used to calculate the total compensation for employees, and have been adjusted to a full-time equivalent for those who work part time or have joined partway through the year. An adjustment has also been made for the hourly working employees to represent full-time working.

The Company believes that the median pay ratio is consistent with its overall policies relating to remuneration, and how these apply to the CEO and Anglian Water employees. In general, the pay and bonus policies that are applied across the Group show that as employees progress into more senior roles they become eligible for an increase in overall remuneration through eligibility for Bonus Plans.

Table 22 shows the salary and total pay and benefits for the employees at the 25th, 50th and 75th percentile and the salary component of total pay and benefits for these employees.

TABLE 22

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	£505,277	£25,149	£29,155	£39,927
Total pay and benefits	£1,275,320	£30,964	£40,840	£51,526

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

Table 23 below sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2019 and 31 March 2020.

TABLE 23

	AWS		
	2019/20 (£m)	2018/19 (£m)	% change
Remuneration paid to employees <sup>1</sup>	207.0	202.7	2.1
Dividend paid outside the AWS Financing Group net of equity injection <sup>2</sup>	67.8	46.0	47.4
Capital investment <sup>3</sup> (cash)	452.5	470.7	-3.9

- 1 Remuneration paid to employees has increased by 2.1 per cent. This includes an annual pay increase for all employees of 3 per cent, an increase of 4.6 per cent in the average number of employees, offset by the one-off pension provision of £3.3 million in respect of Guaranteed Minimum Pension (GMP) equalisation in the prior year.
- 2 It is noted that in the prior year, dividends paid outside of the AWS Financing Group (which is defined on pages 30–31) were £68 million, of which £22 million came back by way of equity injection into AWS in October 2018. It is further noted that Anglian Water Group did not pay any dividends to shareholders in this financial year.
- 3 Capital investment is lower in 2019/20 compared to the prior year as a result of lower capital maintenance spend.



## Remuneration Committee decisions

### Consideration by the Directors of matters relating to Directors' remuneration

Remuneration matters relating to the 2019/20 financial year were discussed at Remuneration Committee meetings held on 23 May 2019, 27 November 2019, 13 February 2020, 25 March 2020 and 27 March 2020. The items discussed at these meetings are summarised below:

#### May 2019

- Approval of the Remuneration Report 2019
- Approval of the performance contract outturn 2019
- Performance review and pay and bonus recommendation for Executive Directors and senior management
- Approval of the 2019 awards under the Deferred Bonus Plan
- Approval of Co-Investment Plan opportunity for 2019
- Approval of vesting of the 2016 LTIP award

#### November 2019

- Discussion regarding the proposed awards in 2020 under the Deferred Bonus Plan
- Discussion regarding the AWG Loyalty Savings Scheme
- Discussion regarding executive pay
- Discussion regarding a Co-Investment Plan in AMP7

#### February 2020

- Initial review of the of the 2019/20 performance contract
- Review of potential incentive plan outcomes
- Discussion regarding 2020 Deferred Bonus Plan performance conditions
- Approval of 2020 AWG Loyalty Savings Scheme
- Review of Executive Director and Management Board pay levels
- NED fee review

#### 25 March 2020

- Discussion regarding 2020 Co-Investment Plan
- Discussion regarding Deferred Bonus Plan design and targets
- Evaluation of the Remuneration Committee
- Recommendation of revised fees for Independent Non-Executive Directors following Board appointments

#### 27 March 2020

- Recommendation of revised fees for Independent Non-Executive Directors following changes to the Board composition

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

### Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on [page 115](#). The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 25 March 2020. No material shortcomings in the operation of the Committee were highlighted.

### External advisors

During 2019/20, the Committee used PwC as external remuneration consultants to provide advice and benchmarking data as part of a review of CEO and CFO remuneration packages.

### Statutory requirements

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

The report was approved by the Board on 15 June 2020 and signed on its behalf.

#### Paul Whittaker

Chairman of the Remuneration Committee  
15 June 2020



# Directors' Report for the year ended 31 March 2020

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the Company) for the year ended 31 March 2020.

## Business review

The ultimate parent company of Anglian Water Services Limited is Anglian Water Group Limited, a company registered in Jersey. Anglian Water Group Limited is owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, First Sentier Investors, Infinity Investments S.A., IFM Investors and Camulodunum Investments Ltd. The Company's ownership structure is detailed on [pages 30–31](#).

The information that fulfils the requirement of the Strategic Report, including a summary of the Group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on [pages 3–95](#).

## Corporate governance statement

During the year the Company has applied the Anglian Water Services Corporate Governance Code 2019 (2019 Code). Information on the requirements of the 2019 Code and how it was applied during the year can be found in the Corporate Governance Report on [pages 101–109](#).

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 20 of the financial statements.

## Principal activities

The Company provides around 1.1 billion litres of drinking water to 4.8 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 900 million litres of used water per day from 6.2 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 140](#) shows the Group's results and profit for the year. Details of dividends paid during the year can be found in note 11 of the financial statements. No dividends were paid to the ultimate shareholders in the year.

## Risk management

Detailed information about the Company's risk management processes, including its approach to financial risks, can be found on [pages 72–87](#).

## Health and safety

Details are included on [pages 68–69](#).

## Directors

Current Directors of the Company are listed on [pages 98–100](#) 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 2019/20 financial year and up until the date of the signing of the financial statements, the Company has maintained Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2)–(6)) of the Companies Act 2006.

## Political donations and expenditure

No political donations or expenditure were made during the year (2019: £nil).

## Emissions

Information relating to carbon emissions can be found on [page 35](#).



## Future developments

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

## Research and development

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

## Employees

Information on the Company's policy on employing people with disabilities and about how employees are kept informed and consulted can be found in 'Our people: healthier, happier, safer' on [pages 66–69](#). Information relating to how the Directors have engaged with employees and the effect of that regard can be found in the section 172 statement on [pages 21–27](#).

## Stakeholder engagement

Details of how the Directors have engaged with customers, suppliers, and other stakeholders, including those representing communities and the environment, can be found in the section 172 statement on [pages 21–27](#).

## Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 32 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 2020 financial statements. Further details of this review can be found on [page 147](#).

## 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.

## Auditor

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

## By order of the Board

Claire Russell  
Company Secretary  
15 June 2020

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
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the

financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed in the 'Our leadership team' and 'Board of Directors' sections on [page 6](#) and [pages 98–100](#), confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs is adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss 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  
15 June 2020



# Statutory accounts

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## Group income statement

for the year ended 31 March 2020

Notes		2020			2019		
		Adjusted results £m	Other items <sup>1</sup> £m	Total £m	Adjusted results £m	Other items <sup>1</sup> £m	Total £m
4	<b>Revenue</b>	<b>1,419.9</b>	-	<b>1,419.9</b>	1,354.7	-	1,354.7
5	Other operating income	13.0	-	13.0	13.6	-	13.6
6	Operating costs						
	Operating costs before depreciation and amortisation	(624.6)	-	(624.6)	(604.0)	-	(604.0)
	Impairment losses	(40.7)	-	(40.7)	(26.5)	-	(26.5)
	Depreciation and amortisation	(368.5)	-	(368.5)	(348.8)	-	(348.8)
	Total operating costs	(1,033.8)	-	(1,033.8)	(979.3)	-	(979.3)
	<b>Operating profit</b>	<b>399.1</b>	-	<b>399.1</b>	389.0	-	389.0
	Finance income	4.8	-	4.8	2.9	-	2.9
	Finance costs, including fair value losses on derivative financial instruments	(329.9)	(30.4)	(360.3)	(331.4)	(98.4)	(429.8)
7	Net finance costs	(325.1)	(30.4)	(355.5)	(328.5)	(98.4)	(426.9)
	<b>Profit/(loss) before tax from continuing operations</b>	<b>74.0</b>	<b>(30.4)</b>	<b>43.6</b>	60.5	(98.4)	(37.9)
8	Tax (charge)/credit	(126.2)	5.8	(120.4)	(11.6)	16.7	5.1
	<b>(Loss)/profit for the year</b>	<b>(52.2)</b>	<b>(24.6)</b>	<b>(76.8)</b>	48.9	(81.7)	(32.8)

<sup>1</sup> Other items comprise fair value losses on derivative financial instruments and energy hedges of £30.4 million (2019: £98.4 million).

Notes 1 to 32 are an integral part of these financial statements.

The new leasing standard, IFRS 16, was adopted on 1 April 2019 for statutory reporting, without restating comparative figures. As a result, the primary statements are shown on an IFRS 16 basis for the year ended 31 March 2020 and on an IAS 17 basis for 31 March 2019. Note 30 provides a reconciliation of the two accounting policies and note 1(b) explains the new policy and approach to transition.





## Group balance sheet

at 31 March 2020

Notes		At 31 March 2020 £m	At 31 March 2019 £m
	<b>Non-current assets</b>		
12	Other intangible assets	217.3	197.3
13	Property, plant and equipment	9,940.3	9,770.2
20	Derivative financial instruments	317.8	195.6
23	Retirement benefit surpluses	171.6	49.3
		<b>10,647.0</b>	<b>10,212.4</b>
	<b>Current assets</b>		
15	Inventories	12.4	11.6
16	Trade and other receivables	530.6	485.7
17	Investments – cash deposits	319.0	297.0
17	Cash and cash equivalents	729.1	257.3
20	Derivative financial instruments	16.8	20.3
		<b>1,607.9</b>	<b>1,071.9</b>
	<b>Total assets</b>	<b>12,254.9</b>	<b>11,284.3</b>
	<b>Current liabilities</b>		
18	Trade and other payables	(520.9)	(492.0)
	Current tax liabilities	(198.2)	(253.0)
19	Borrowings	(1,023.0)	(315.0)
20	Derivative financial instruments	(81.4)	(16.0)
21	Provisions	(6.2)	(4.2)
		<b>(1,829.7)</b>	<b>(1,080.2)</b>
	<b>Net current liabilities</b>	<b>(221.8)</b>	<b>(8.3)</b>
	<b>Non-current liabilities</b>		
19	Borrowings	(6,702.3)	(6,619.6)
20	Derivative financial instruments	(996.0)	(980.4)
22	Deferred tax liabilities	(1,093.6)	(936.8)
23	Retirement benefit deficit	(41.6)	(45.8)
21	Provisions	(10.5)	(8.0)
		<b>(8,844.0)</b>	<b>(8,590.6)</b>
	<b>Total liabilities</b>	<b>(10,673.7)</b>	<b>(9,670.8)</b>
	<b>Net assets</b>	<b>1,581.2</b>	<b>1,613.5</b>
	<b>Capital and reserves</b>		
24	Share capital	32.0	32.0
	Retained earnings	1,600.4	1,655.4
25	Hedging reserve	(52.3)	(75.9)
25	Cost of hedging reserve	1.1	2.0
	<b>Total equity</b>	<b>1,581.2</b>	<b>1,613.5</b>

Notes 1 to 32 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 June 2020 and signed on its behalf by:

**Peter Simpson**  
Chief Executive

**Steven Buck**  
Chief Financial Officer





## Company balance sheet

at 31 March 2020

Company number 02366656

Notes		At 31 March 2020 £m	At 31 March 2019 £m
	<b>Non-current assets</b>		
12	Intangible assets	217.3	197.3
13	Property, plant and equipment	9,940.3	9,770.2
20	Derivative financial instruments	317.8	195.6
23	Retirement benefit surpluses	171.6	49.3
		<b>10,647.0</b>	<b>10,212.4</b>
	<b>Current assets</b>		
15	Inventories	12.4	11.6
16	Trade and other receivables	530.6	485.7
17	Investments – cash deposits	319.0	297.0
17	Cash and cash equivalents	729.0	255.5
20	Derivative financial instruments	16.8	20.3
		<b>1,607.8</b>	<b>1,070.1</b>
	<b>Total assets</b>	<b>12,254.8</b>	<b>11,282.5</b>
	<b>Current liabilities</b>		
18	Trade and other payables	(569.4)	(538.7)
	Current tax liabilities	(198.2)	(253.0)
19	Borrowings	(1,023.0)	(315.0)
20	Derivative financial instruments	(81.4)	(16.0)
21	Provisions	(6.2)	(4.2)
		<b>(1,878.2)</b>	<b>(1,126.9)</b>
	<b>Net current liabilities</b>	<b>(270.4)</b>	<b>(56.8)</b>
	<b>Non-current liabilities</b>		
19	Borrowings	(6,702.3)	(6,619.6)
20	Derivative financial instruments	(996.0)	(980.4)
22	Deferred tax liabilities	(1,093.6)	(936.8)
23	Retirement benefit deficit	(41.6)	(45.8)
21	Provisions	(10.5)	(8.0)
		<b>(8,844.0)</b>	<b>(8,590.6)</b>
	<b>Total liabilities</b>	<b>(10,722.2)</b>	<b>(9,717.5)</b>
	<b>Net assets</b>	<b>1,532.6</b>	<b>1,565.0</b>
	<b>Capital and reserves</b>		
24	Share capital	32.0	32.0
	Retained earnings	1,551.8	1,606.9
25	Hedging reserve	(52.3)	(75.9)
25	Cost of hedging reserve	1.1	2.0
	<b>Total equity</b>	<b>1,532.6</b>	<b>1,565.0</b>

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year, dealt with in the financial statements of the Company, is £76.9 million (2019: loss of £33.3 million).

Notes 1 to 32 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 June 2020 and signed on its behalf by:

**Peter Simpson**  
Chief Executive

**Steven Buck**  
Chief Financial Officer



## Group statement of changes in equity

for the year ended 31 March 2020

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
<b>At 1 April 2018</b>	<b>10.0</b>	<b>1,312.7</b>	<b>(105.3)</b>	<b>-</b>	<b>1,217.4</b>
Change in accounting policy					
IFRS 9	-	2.0	(3.8)	1.8	-
IFRS 15	-	457.2	-	-	457.2
<b>At 1 April 2018 (restated)</b>	<b>10.0</b>	<b>1,771.9</b>	<b>(109.1)</b>	<b>1.8</b>	<b>1,674.6</b>
Loss for the year	-	(32.8)	-	-	(32.8)
Other comprehensive income					
Actuarial losses on retirement benefit obligations	-	(18.8)	-	-	(18.8)
Income tax credit on items that will not be reclassified	-	3.1	-	-	3.1
(Losses)/gains on cash flow hedges	-	-	(1.0)	0.9	(0.1)
Amounts on cash flow hedges transferred to income statement	-	-	1.5	(0.3)	1.2
Exchange movement on cash flow hedges	-	-	38.8	-	38.8
Deferred tax movement on cash flow hedges	-	-	(6.1)	(0.4)	(6.5)
	-	(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	-	(68.0)	-	-	(68.0)
<b>At 31 March 2019</b>	<b>32.0</b>	<b>1,655.4</b>	<b>(75.9)</b>	<b>2.0</b>	<b>1,613.5</b>
Loss for the year	-	(76.8)	-	-	(76.8)
Other comprehensive income					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains/(losses) on cash flow hedges	-	-	52.1	(0.6)	51.5
Amounts on cash flow hedges transferred to income statement	-	-	3.9	(0.4)	3.5
Exchange movement on cash flow hedges	-	-	(29.2)	-	(29.2)
Deferred tax movement on cash flow hedges	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.8	23.6	(0.9)	35.5
Dividends	-	(67.8)	-	-	(67.8)
<b>At 31 March 2020</b>	<b>32.0</b>	<b>1,600.4</b>	<b>(52.3)</b>	<b>1.1</b>	<b>1,581.2</b>

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).



## Company statement of changes in equity

for the year ended 31 March 2020

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
<b>At 1 April 2018</b>	<b>10.0</b>	<b>1,264.7</b>	<b>(105.3)</b>	<b>-</b>	<b>1,169.4</b>
Change in accounting policy					
IFRS 9	-	2.0	(3.8)	1.8	-
IFRS 15	-	457.2	-	-	457.2
<b>At 1 April 2018 (restated)</b>	<b>10.0</b>	<b>1,723.9</b>	<b>(109.1)</b>	<b>1.8</b>	<b>1,626.6</b>
Loss for the year	-	(33.3)	-	-	(33.3)
Other comprehensive income					
Actuarial losses on retirement benefit obligations	-	(18.8)	-	-	(18.8)
Income tax credit on items that will not be reclassified	-	3.1	-	-	3.1
(Losses)/gains on cash flow hedges	-	-	(1.0)	0.9	(0.1)
Amounts on cash flow hedges transferred to income statement	-	-	1.5	(0.3)	1.2
Exchange movement on cash flow hedges	-	-	38.8	-	38.8
Deferred tax movement on cash flow hedges	-	-	(6.1)	(0.4)	(6.5)
	-	(15.7)	33.2	0.2	17.7
Total comprehensive (expense)/income	-	(49.0)	33.2	0.2	(15.6)
Issue of share capital	22.0	-	-	-	22.0
Dividends	-	(68.0)	-	-	(68.0)
<b>At 31 March 2019</b>	<b>32.0</b>	<b>1,606.9</b>	<b>(75.9)</b>	<b>2.0</b>	<b>1,565.0</b>
Loss for the year	-	(76.9)	-	-	(76.9)
Other comprehensive income					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains/(losses) on cash flow hedges	-	-	52.1	(0.6)	51.5
Amounts on cash flow hedges transferred to income statement	-	-	3.9	(0.4)	3.5
Exchange movement on cash flow hedges	-	-	(29.2)	-	(29.2)
Deferred tax movement on cash flow hedges	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.7	23.6	(0.9)	35.4
Dividends	-	(67.8)	-	-	(67.8)
<b>At 31 March 2020</b>	<b>32.0</b>	<b>1,551.8</b>	<b>(52.3)</b>	<b>1.1</b>	<b>1,532.6</b>

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).



# Group and Company cash flow statements

for the year ended 31 March 2020

Notes	Group		Company	
	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
	<b>Operating activities</b>			
	399.1	389.0	399.1	389.0
	Operating profit			
	Adjustments for:			
	368.5	348.8	368.5	348.8
	Depreciation and amortisation			
	(37.1)	(22.0)	(37.1)	(22.0)
	Assets adopted for £nil consideration			
	(2.3)	(1.2)	(2.3)	(1.2)
	Profit on disposal of property, plant and equipment			
	(18.5)	(12.7)	(18.5)	(12.7)
	Difference between pension charge and cash contributions			
	5.2	(2.7)	5.2	(2.7)
	Net movement in provisions			
	Working capital movements:			
	(0.8)	(1.6)	(0.8)	(1.6)
	Increase in inventories			
	(45.5)	(6.4)	(45.5)	(6.4)
	Increase in trade and other receivables			
	17.4	9.5	19.3	9.5
	Increase in trade and other payables			
	<b>686.0</b>	<b>700.7</b>	<b>687.9</b>	<b>700.7</b>
	<b>Cash generated from operations</b>			
	(40.3)	(30.2)	(40.3)	(30.2)
	Income taxes paid <sup>1</sup>			
	<b>645.7</b>	<b>670.5</b>	<b>647.6</b>	<b>670.5</b>
	<b>Net cash flows from operating activities</b>			
	<b>Investing activities</b>			
	(391.3)	(405.0)	(391.3)	(405.0)
	Purchase of property, plant and equipment			
	(61.2)	(65.7)	(61.2)	(65.7)
	Purchase of intangible assets			
	2.3	1.6	2.3	1.6
	Proceeds from disposal of property, plant and equipment			
	4.8	2.9	4.6	2.8
	Interest received			
	<b>(445.4)</b>	<b>(466.2)</b>	<b>(445.6)</b>	<b>(466.3)</b>
	<b>Net cash used in investing activities</b>			
	<b>Financing activities</b>			
	(229.3)	(215.8)	(229.3)	(215.8)
	Interest paid			
	(2.6)	(3.3)	(2.6)	(3.3)
	Debt issue costs paid			
	(0.7)	(0.6)	(0.7)	(0.6)
	Interest paid on leases			
	815.9	447.8	815.9	447.8
	Increase in amounts borrowed			
	(220.3)	(140.0)	(220.3)	(140.0)
	Repayments of amounts borrowed			
	-	22.0	-	22.0
	Proceeds from the issue of shares			
	9.6	27.0	9.6	27.0
	Principal settlement on derivatives			
	(11.3)	(6.2)	(11.3)	(6.2)
	Repayment of principal on leases			
	(22.0)	(257.0)	(22.0)	(257.0)
	Increase in short-term bank deposits			
11	(67.8)	(68.0)	(67.8)	(68.0)
	Dividends paid			
	<b>271.5</b>	<b>(194.1)</b>	<b>271.5</b>	<b>(194.1)</b>
	<b>Net cash from/(used in) financing activities</b>			
	<b>471.8</b>	<b>10.2</b>	<b>473.5</b>	<b>10.1</b>
	<b>Net increase in cash and cash equivalents</b>			
	257.3	247.1	255.5	245.4
	Cash and cash equivalents at 1 April			
17	<b>729.1</b>	<b>257.3</b>	<b>729.0</b>	<b>255.5</b>
	<b>Cash and cash equivalents at 31 March</b>			

<sup>1</sup> Income taxes paid are all inter-company with AWG Group Limited.



# Notes to the Group financial statements

for the year ended 31 March 2020

## 1 Accounting policies

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

### (a) Basis of accounting

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

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

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the Group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business.

### (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, as detailed below.

The review included a range of downside outcomes as a result of Covid-19 against the Final Determination (FD) received from Ofwat that has subsequently been referred to the CMA.

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. Anglian Water has a single debt platform (sometimes known as a 'common terms' or 'CTA' debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water's Licence (an 'Aligned Debt Programme'). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

Under this structure, the failure to meet certain metrics can cause a Trigger Event and in some circumstances an Event of Default.

In considering going concern the Directors have therefore considered:

- The liquidity of the business – the business has significant cash balances, including deposits of £1,048.1 million, following the drawdown of £600 million of liquidity facilities and access to a further £450 million if required. This drawdown is expected to provide an adequate buffer to ensure payments can be met as they fall due. Debt due within one year of £1,023.0 million includes the £600 million of facilities, which can be rolled over to 2024 if required.
- The challenges presented by the PR19 FD and the ability of the business to mitigate this risk through a cost reduction programme – at the end of AMP6 the business conducted an organisational model review to enable the investment delivery process to drive better value solutions. As part of the commitment to continuous improvement and to deliver ongoing efficiency, there is a cost reduction programme. The confidence of delivery of this programme was assessed as part of the going concern review.
- Profitability – Anglian Water Services is an efficient company with a history of outperformance. The revenues of the business are underpinned by the regulatory model and the business has a stretching five-year plan to deliver in line with the FD.
- Interest cover ratios – the business has significant headroom against Default Events under its securitised covenants with no plausible scenario identified that would cause a Default Event. While undesirable a Trigger Event, if it happened, would not impact on the going concern assumption for the reasons noted below.
- Covid-19 – as well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the likely recessionary impact on the wider economy. These demonstrate that we do not hit Default levels on our covenants with sufficient liquidity to support the business if we enter a Trigger Event. The downside outcomes included assumptions in relation to:
  - the length of the lockdown period
  - reduction in non-household revenue
  - reduction in household cash collection
  - increase in bad debt provision.

The lockdown period ranged from three months in the low scenario to nine months in the severe, with corresponding updates to the other assumptions to reflect this.

Based on the above, the Directors believe that, despite the net current liability position, the business has sufficient liquidity to meet its liabilities as they fall due.

While certain worst-case scenarios indicate the potential for a Trigger Event, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. This is due to the intention of a Trigger Event being that it is an early warning event designed to reinforce credit worthiness and to protect the Company and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the Company through enforcing their security.

For these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.





# Notes to the Group financial statements continued

for the year ended 31 March 2020

## Standards, amendments and interpretations effective or adopted

The following standards and amendments are effective in the Group's consolidated financial statements:

- IFRS 16 'Leases'
- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform' (early adopted)
- Annual improvements 2015–2017 cycle:
  - IFRS 3 'Business combinations'
  - IFRS 11 'Joint arrangements'
  - IAS 12 'Income taxes'
  - IAS 23 'Borrowing costs'
- Amendments to IAS 28 'Long-term interests in associates and joint ventures'
- Amendments to IFRS 9 'Prepayment features with negative compensation'
- Amendments to IAS 19 'Plan amendment, curtailment or settlement'
- Revised interpretation of IFRIC 23 'Uncertainty over income tax treatments'.

### i IFRS 16 'Leases'

The Group has adopted the modified retrospective approach for the new accounting standard IFRS 16 'Leases' that became applicable for the current reporting period. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of the Group's accounting policies under IFRS 16 are set out in section (I), with the financial impact of adopting the new accounting standard set out in note 30. Judgement is applied in the adoption of IFRS 16 in determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

### ii IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the reforms. The amendments permit continuation of hedge accounting even if the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The Group has chosen to early apply the amendments to IFRS 9 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

### iii Other amendments

Other amendments effective during the reporting period did not have any significant impact on adoption.

## Standards, amendments and interpretations not yet effective and not early adopted

The following standards and amendments have not been adopted in the Group's consolidated financial statements as they are not yet effective:

- Amendments to references to the Conceptual Framework in IFRS Standards (effective from 1 April 2020)
- Amendments to IFRS 3 'Business combinations' (effective from 1 April 2020, not yet endorsed in the EU)
- Amendments to IAS 1 and IAS 8 'Definition of material' (effective from 1 April 2020)
- IFRS 17 'Insurance contracts' (effective from 1 April 2021, not yet endorsed in the EU)
- Amendments to IAS 1 'Classification of liabilities as current or non-current' (effective from 1 April 2022, not yet endorsed in the EU).

The Group does not expect the future application of these amendments to have any significant impact on the consolidated financial statements.

## Primary financial statement format

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column 'Other items'. This comprises fair value gains and losses on derivative financial instruments and energy hedges. By showing these items separately, management believes the adjusted results provide the reader with a more meaningful understanding of the performance of the Group and a clear reconciliation to statutory results.

### (c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial instruments'.

### (d) Segmental reporting

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

### (e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services.



### Principal source of income

The Group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the Group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how the Group recognises the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly for the variable element, revenue is recognised as water is supplied, based on volumes supplied at the relevant reporting date.

Related non-volumetric, or standing, charges reflect our obligation to stand ready to deliver water, as is the case with unmeasured supply (see below), and is accounted for accordingly.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers is recognised on a time basis under IFRS 15.

Non-household revenue is charged and recognised on the basis of volumes supplied, based on data submitted by the market operator.

### Grants and contributions

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. The significant components of grants and contributions, and their treatment, are as follows:

#### i New connection charges

The Group considers that the developer requesting the connection is the customer, and that the Group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income as the connection is completed.

#### ii Self-lay, requisitions and adoption fees

The Group has reached the same conclusion as for new connection charges (see (i) above).

#### iii Fair value of assets adopted for £nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the Group, on a £nil consideration basis, in exchange for being relieved of any future liability. As the Group does not have any performance obligation to the developer post adoption, the Group has concluded that immediate recognition based on the fair value of the asset adopted is appropriate.

#### iv Infrastructure charges

Infrastructure charges are a developer's contribution to fund network reinforcement by the Group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the Group has concluded that the developer is the customer, and that the Group's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

#### v Diversions

Diversions arise where a highways agency, or other authority, reimburses the Group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the Group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

### Other sources of revenue

#### Other operating income

The principal sources of other operating income are from the generation of power, the sale of biosolids to farms, rents received and other minor income associated with operating activities.

#### (f) Research and development

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

#### (g) Exceptional items

Exceptional items are one-off items 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.

#### (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 that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and surplus Advance Corporation Tax (ACT) 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.



# Notes to the Group financial statements continued

for the year ended 31 March 2020

## (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

### Other intangible assets

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight line basis over their estimated useful lives, which are primarily three to 10 years.

## (k) Property, plant and equipment

Property, plant and equipment comprises:

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

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

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, mobile plant and equipment	3–10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

## (l) Leased assets (applicable from 1 April 2019)

The Group assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (defined as leases for individual assets with a value of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of the probability in exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

## (m) Investments

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the business' practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.



The Expected Credit Loss (ECL) model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets; therefore, this is no longer dependent on the Group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- where credit risk is low or has not increased significantly since recognition ('Stage 1'); and
- where credit risk is not low or has increased significantly since initial recognition ('Stage 2').
- where the financial asset is credit impaired ('Stage 3').

'12-month expected credit losses' are recognised for Stage 1 while 'lifetime expected credit losses' are recognised for Stage 2.

Expected credit losses (ECLs) are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

#### (n) Inventories

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

#### (o) Financial assets and liabilities

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss; fair value through other comprehensive income or amortised cost depending on the Group's intention in regard to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

#### (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 Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable.

In calculating the expected loss, the Group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

The Group assesses impairment of trade receivables on a collective basis; where they possess shared credit risk characteristics they have been grouped, these are residential, non-household and developer services and other customers.

Trade receivables are considered to be credit impaired where no payment has been received within 180 days past due and we believe there is no realistic prospect of recovery or it is uneconomic to pursue.

#### (q) Cash and cash equivalents

In the cash flow statement, 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.

#### (r) Borrowings

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

#### (s) Derivative financial instruments

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

Derivatives are initially recognised at fair value and subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial instruments'. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the Group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.



# Notes to the Group financial statements continued

for the year ended 31 March 2020

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

In some hedge relationships, the Group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In this case the fair value change of the currency basis element of the cross currency interest rate swap is deferred in other comprehensive income, over the term of the hedge and is reclassified from equity to profit or loss on a straight line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on a hedge-by-hedge basis.

## *Embedded derivatives*

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss (FVTPL).

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

## *i Fair value hedge*

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

If a fair value hedge is discontinued, the hedged item is not adjusted for any subsequent movements in the hedged risk. The amount that the hedged item was adjusted by will be amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

## *ii Cash flow hedge*

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

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

When a cash flow hedge is discontinued, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## *iii Derivatives that do not qualify for hedge accounting*

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

## *(t) Provisions*

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

## *(u) Retirement benefit obligations*

### *i Defined benefit schemes*

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

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





## ii Defined contribution schemes

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

## 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 £72.4 million (2019: £66.2 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.

#### ii Depreciation

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

#### iii Taxation

The Group's tax charge for the year is based on the profit for the year and the 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 8 and 22 for further analysis of the Group's tax charge.

#### iv Recognition of grants and contributions

Revenue is recognised when the performance obligations in a contract are met. For grants and contributions in respect of new housing developments, our obligation to the developer is met when properties are connected to the network, and therefore this is considered the relevant trigger for income recognition. We believe the ongoing obligation to maintain the connection to the property is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer.

A similar revenue recognition approach is taken with diversions. The obligation here is that we divert the sewer or water main at the request of the relevant authority or agency, and our obligation is fully met once the diversion is completed, and therefore the contribution is fully recognised as revenue at that point in time, see note 4.

### (b) Areas involving estimation

The key areas involving estimation are discussed below.

#### i Measured income accrual

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year 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 or rise of two cubic metres in average annual consumption will reduce or increase revenue by approximately £11.6 million respectively).

#### ii Bad debts

IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Company starts by evaluating the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience, primarily cash collection history, and then adjusts, as necessary, for forward-looking factors such as a change in economic conditions.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

At 31 March 2020, the provision for doubtful receivables, excluding the uplift for Covid-19, of £200.0 million (which includes the bad and doubtful debt provision for retained non-household customer balances) was supported by 10 years of cash collection history, adjusted for other factors. If we based the provision on a shorter collection history of two years, the provision would have been £0.3 million higher.

However, the Directors take the view that using a longer history of debt recoverability removes the potential volatility of changing rates on a more frequent basis, and hence provides a more consistent basis for accounting.

With uncertainty over the Covid-19 global pandemic, the impact on the wider economy and customers' ability to pay their water bills is difficult to predict with any confidence. The last significant shock to the UK economy was the financial crash in 2008; therefore, we have reviewed the subsequent trend in bad debt charge to use as an indicator of the potential impact of Covid-19. The majority of debt is very short term in nature, with more than 75 per cent of debt collected within three months of being raised. However, the impact of any economic change is likely to be felt over several months, if not years.

We have reviewed market data and considered a range of potential economic scenarios, including both shorter and longer peaks in the pandemic. The shorter scenario assumes the peak was in April, with the longer peak scenario assuming May-June.



## Notes to the Group financial statements continued

### for the year ended 31 March 2020

Considering the above, it is management's best estimate that this indicates a potential range of increase in the bad debt charge is between 0.6 per cent and 1.2 per cent of revenue. Based on annual household billing of c.£1 billion, this gives a potential charge between £6 million and £12 million.

In addition, we have reviewed post year-end cash collection rates applicable to the year-end receivables balance compared to budget, which indicates a potential shortfall in cash collection of 15 per cent. Applying this 15 per cent under-recovery over a shorter or longer period would result in an additional bad debt provision of between £7 million and £13 million, which largely supports the market data scenario analysis.

Based on the above, we have increased our bad debt provision by £12 million as management's best estimate of the potential impact. This adjustment is sensitive to the assumptions noted. The below table represents a reasonable alternative range, with a decrease of 0.6 per cent representing the low end of the range noted above, as well as a useful benchmark change.

	Impact on provision £m
0.6% increase in bad debt as a percentage of household revenue	6.0
0.6% decrease in bad debt as a percentage of household revenue	(6.0)

The bad debt provision is based on debt recorded at the balance sheet date. Invoices raised in the subsequent months will also be impacted as the economic issues continue. The bad debt expense in 2020/21 will also therefore be impacted by Covid-19; this impact could be substantially different to that at March 2020.

#### iii Retirement benefit actuarial assumptions

The Company operates one defined benefit scheme (which is closed to new members and future accrual), a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee benefits', the Company has recognised an actuarial loss of £108.4 million (2019: £18.8 million) in respect of the defined benefit scheme, which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions that include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 23 of the financial statements.

### 3 Segmental information

The Directors believe that the whole of the Group's activities constitute a single class of business.

The Group's revenue is wholly generated from within the United Kingdom.

### 4 Revenue

	2020 £m	2019 £m
Water and sewerage services		
Anglian Water		
Household – measured	791.0	753.0
Household – unmeasured	235.7	240.4
Non-household – measured	265.2	250.7
Grants and contributions	89.3	74.4
Other	38.7	36.2
	<b>1,419.9</b>	<b>1,354.7</b>

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the above revenue categories.

The above analysis excludes other operating income (see note 5) and finance income (see note 7).

### 5 Other operating income

Other operating income comprises principally income from sustainable power generation, biosolid sales and rents received.



## 6 Operating costs

	2020 £m	2019 £m
Raw materials and consumables	22.2	18.4
Staff costs	226.9	221.1
Operating lease rentals		
Property	-	2.3
Plant and equipment	-	4.1
Research and development expenditure	3.2	2.3
Contribution to the Anglian Water Assistance Fund	1.0	1.1
Short-term lease costs	2.2	-
Other operating costs	443.8	422.1
Own work capitalised	(72.4)	(66.2)
Profit on disposal of property, plant and equipment <sup>1</sup>	(2.3)	(1.2)
<b>Operating costs before depreciation and amortisation</b>	<b>624.6</b>	<b>604.0</b>
Depreciation of property, plant and equipment <sup>2</sup>	323.6	308.5
Amortisation of intangible assets	44.9	40.3
<b>Depreciation and amortisation</b>	<b>368.5</b>	<b>348.8</b>
<b>Impairment losses</b>	<b>40.7</b>	<b>26.5</b>
<b>Operating costs</b>	<b>1,033.8</b>	<b>979.3</b>

<sup>1</sup> The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

<sup>2</sup> Included within depreciation of property, plant and equipment for 2020 is £4.7 million in respect of leases recognised under IFRS 16.

During the year, the Group obtained the following services from the Company's auditors:

	2020 £m	2019 £m
Fees payable to the Company's auditors for the audit of the Company and the consolidated financial statements	0.3	0.2
Fees payable to the Company's auditors for other services		
Audit-related assurance services	0.1	0.1
Other non-audit services	0.2	0.6
	<b>0.6</b>	<b>0.9</b>

The Company's auditor for 2020 and 2019 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results. Other non-audit services include £0.2 million (2019: £0.6 million) for consulting services that relate to supporting management in strategy development for operational activities, as well as providing assurance services on the PR19 submission.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 7 Net finance costs

	2020 £m	2019 £m
<b>Finance income</b>		
Interest income on short-term bank deposits	4.8	2.9
	4.8	2.9
<b>Finance costs</b>		
Interest expense on bank loans and overdrafts	(0.1)	-
Interest expense on loans including financing expenses	(226.7)	(220.2)
Indexation of loan stock	(114.5)	(129.6)
Amortisation of debt issue costs	(3.9)	(3.7)
Interest on leases	(0.7)	0.3
Unwinding of discount on onerous lease obligation provision	(2.1)	(0.3)
Defined benefit pension scheme interest	0.3	0.4
Total finance costs	(347.7)	(353.1)
Less: amounts capitalised on qualifying assets	17.8	21.7
	(329.9)	(331.4)
<b>Fair value losses on derivative financial instruments</b>		
Fair value losses on energy hedges	(1.8)	(1.8)
Hedge ineffectiveness on cash flow hedges <sup>1</sup>	0.5	3.4
Hedge ineffectiveness on fair value hedges <sup>2</sup>	(2.0)	(0.5)
Amortisation of adjustment to debt in fair value hedge	(0.3)	(3.5)
Restructuring costs on derivatives	-	(11.7)
Derivative financial instruments not designated as hedges	(18.8)	(72.1)
Recycling of designated cash flow hedge relationship	(8.0)	(12.2)
	(30.4)	(98.4)
<b>Finance costs, including fair value losses on derivative financial instruments</b>	<b>(360.3)</b>	<b>(429.8)</b>
<b>Net finance costs</b>	<b>(355.5)</b>	<b>(426.9)</b>

<sup>1</sup> Hedge ineffectiveness on cash flows hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. See note 20 for details.

<sup>2</sup> Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instruments of £52.8 million (2019: £67.0 million), offset by fair value losses of £54.8 million on hedged risks (2019: £67.5 million).



## 8 Taxation

	2020 £m	2019 £m
<b>Current tax:</b>		
In respect of the current period	(11.4)	53.9
Adjustments in respect of prior periods	(3.1)	2.0
<b>Total current tax (credit)/charge</b>	<b>(14.5)</b>	<b>55.9</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	21.1	(52.9)
Adjustments in respect of previous periods	-	(3.8)
Reversal of decrease in corporation tax rate	113.8	(4.3)
<b>Total deferred tax charge/(credit)</b>	<b>134.9</b>	<b>(61.0)</b>
<b>Total tax charge/(credit) on profit/(loss) on continuing operations</b>	<b>120.4</b>	<b>(5.1)</b>

In 2020 the current tax credit reflects receipts from other Group companies for tax losses surrendered to those Group companies. The tax losses arise mainly because maximum capital allowances have been claimed in 2020, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year.

The current tax charge for 2019 includes payment to other Group companies for losses surrendered from those companies and also reflects a charge arising on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the surplus Advance Corporation Tax (ACT) asset held on the balance sheet.

In 2020 the deferred tax charge mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

The deferred tax credit for 2019 reflects a credit arising on the transition to IFRS 15 and the disclaiming of capital allowances.

The current and deferred tax adjustments in respect of previous periods for both 2020 and 2019 relate mainly to the agreement of prior year tax computations.

The corporation tax rate was expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020, and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in 2020 and so the deferred tax balances have been remeasured using the rate of 19 per cent.

The tax charge/(credit) on the Group's profit/(loss) before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2019: 19 per cent) to the profit/(loss) before tax from continuing operations as follows:

	2020 £m	2019 £m
<b>Profit/(loss) before tax from continuing operations</b>	<b>43.6</b>	<b>(37.9)</b>
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2019: 19%)	8.3	(7.2)
<b>Effects of recurring items:</b>		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.8	1.2
Disallowable expenditure	0.6	0.7
	<b>9.7</b>	<b>(5.3)</b>
<b>Effects of non-recurring items:</b>		
Reversal of decrease in corporation tax rate	113.8	(4.3)
Effects of differences between rates of current and deferred tax	-	6.3
Adjustments in respect of prior periods	(3.1)	(1.8)
<b>Tax charge/(credit) for the year</b>	<b>120.4</b>	<b>(5.1)</b>





## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 8 Taxation (continued)

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:

	2020 £m	2019 £m
<b>Deferred tax:</b>		
Defined benefit pension schemes	20.6	(3.2)
Cash flow hedges	4.9	6.4
Reversal of decrease in corporation tax rate – pension	(1.8)	0.1
Reversal of decrease in corporation tax rate – hedges	(1.8)	0.1
<b>Total deferred tax charge recognised in other comprehensive income</b>	<b>21.9</b>	<b>3.4</b>
<b>Total tax charge recognised in other comprehensive income</b>	<b>21.9</b>	<b>3.4</b>

### 9 Employee information and Directors' emoluments

#### (a) Employee information

	2020 £m	2019 £m
<b>Staff costs</b>		
Wages and salaries	189.3	182.5
Social security costs	19.9	18.4
Pension costs – defined contribution	17.7	16.9
Pension costs – defined benefit	-	3.3
	<b>226.9</b>	<b>221.1</b>

Staff costs for the year ended 31 March 2020 include £59.6 million (2019: £48.7 million) of costs that have been capitalised within 'own work capitalised'.

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

	2020	2019
Water Services	989	854
Water Recycling Services	1,568	1,563
Customer Services	507	498
Asset Management and Other	1,920	1,849
	<b>4,984</b>	<b>4,764</b>

#### (b) Directors' emoluments

	2020 £'000	2019 £'000
Aggregate emoluments	1,771	1,857
Benefits received under long-term incentive plans	131	1,521

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 (2019: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2019: 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

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on pages 116–134.

	2020 £'000	2019 £'000
Aggregate emoluments	761	704
Benefits received under long-term incentive plans	131	803



## 10 Profit/loss of the parent company

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year, dealt with in the financial statements of the company, was £76.9 million (2019: loss of £33.3 million).

## 11 Dividends

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Paid by the Group:		
Previous year final dividend	67.8	68.0
	<b>67.8</b>	68.0

Dividends paid out of the Anglian Water Services Financing Group for the year ended 31 March 2020 were £67.8 million (2019: £68.0 million), which equates to £2.12 per share in issue when the dividend was paid<sup>1</sup> (2019: £6.80 per share). No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2019: £nil).

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

## 12 Other intangible assets

	Group and Company		
	Computer software £m	Internally generated £m	Total £m
<b>Cost</b>			
At 1 April 2018	340.8	93.2	434.0
Additions	49.4	19.9	69.3
Disposals	(0.9)	-	(0.9)
<b>At 31 March 2019</b>	<b>389.3</b>	<b>113.1</b>	<b>502.4</b>
Additions	45.0	19.9	64.9
Disposals	(3.2)	-	(3.2)
<b>At 31 March 2020</b>	<b>431.1</b>	<b>133.0</b>	<b>564.1</b>
<b>Accumulated amortisation</b>			
At 1 April 2018	(219.9)	(45.8)	(265.7)
Charge for the year	(23.0)	(17.3)	(40.3)
Disposals	0.9	-	0.9
<b>At 31 March 2019</b>	<b>(242.0)</b>	<b>(63.1)</b>	<b>(305.1)</b>
Charge for the year	(25.7)	(19.2)	(44.9)
Disposals	3.2	-	3.2
<b>At 31 March 2020</b>	<b>(264.5)</b>	<b>(82.3)</b>	<b>(346.8)</b>
<b>Net book amount</b>			
<b>At 31 March 2020</b>	<b>166.6</b>	<b>50.7</b>	<b>217.3</b>
At 31 March 2019	147.3	50.0	197.3

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.7 million (2019: £3.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2019: 5.5 per cent).

The continual development of our IT infrastructure and software resulted in the disposal during the year of intangible assets with an original cost, and accumulated amortisation, of £3.2 million (2019: £0.9 million) (£nil net book value).

Included within intangible assets above are assets under construction of £87.9 million (2019: £89.0 million), which are not yet subject to amortisation.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 13 Property, plant and equipment

	Group and Company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
<b>Cost</b>						
At 1 April 2018	46.9	6,701.1	5,797.7	799.2	450.3	<b>13,795.2</b>
Additions	-	-	-	-	415.2	<b>415.2</b>
Transfers on commissioning	3.1	154.5	247.8	51.5	(456.9)	-
Disposals	(0.1)	-	(11.2)	(11.6)	-	<b>(22.9)</b>
<b>At 31 March 2019</b>	<b>49.9</b>	<b>6,855.6</b>	<b>6,034.3</b>	<b>839.1</b>	<b>408.6</b>	<b>14,187.5</b>
Change in accounting policy – IFRS 16	30.2	-	1.5	1.4	-	<b>33.1</b>
At 1 April 2019 (under IFRS 16)	80.1	6,855.6	6,035.8	840.5	408.6	<b>14,220.6</b>
Additions	-	-	-	-	462.4	<b>462.4</b>
Transfer on commissioning	5.9	205.7	214.2	74.5	(500.3)	-
Disposals	(2.2)	-	(11.1)	(24.1)	-	<b>(37.4)</b>
<b>At 31 March 2020</b>	<b>83.8</b>	<b>7,061.3</b>	<b>6,238.9</b>	<b>890.9</b>	<b>370.7</b>	<b>14,645.6</b>
<b>Accumulated depreciation</b>						
At 1 April 2018	(7.3)	(670.0)	(2,913.6)	(540.6)	-	<b>(4,131.5)</b>
Charge for the year	(0.4)	(55.6)	(202.5)	(50.0)	-	<b>(308.5)</b>
Disposals	0.1	-	11.2	11.4	-	<b>22.7</b>
<b>At 31 March 2019</b>	<b>(7.6)</b>	<b>(725.6)</b>	<b>(3,104.9)</b>	<b>(579.2)</b>	-	<b>(4,417.3)</b>
Charge for the year	(4.2)	(57.1)	(210.6)	(51.7)	-	<b>(323.6)</b>
Disposals	0.7	-	11.1	23.8	-	<b>35.6</b>
<b>At 31 March 2020</b>	<b>(11.1)</b>	<b>(782.7)</b>	<b>(3,304.4)</b>	<b>(607.1)</b>	-	<b>(4,705.3)</b>
<b>Net book amount</b>						
<b>At 31 March 2020</b>	<b>72.7</b>	<b>6,278.6</b>	<b>2,934.5</b>	<b>283.8</b>	<b>370.7</b>	<b>9,940.3</b>
At 31 March 2019	42.3	6,130.0	2,929.4	259.9	408.6	9,770.2

Property, plant and equipment at 31 March 2020 includes land of £28.0 million (2019: £27.7 million), which is not subject to depreciation.

Included within additions above is £14.2 million (2019: £18.0 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2019: 5.5 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 leases, the majority of which is included in operational assets:

	2020 £m	2019 £m
<b>Net book amount at 31 March</b>	<b>77.9</b>	<b>44.7</b>

### 14 Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2020. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.



## 15 Inventories

	Group and Company	
	2020 £m	2019 £m
Raw materials and consumables	12.4	11.6
	12.4	11.6

## 16 Trade and other receivables

	Group and Company	
	2020 £m	2019 £m
Trade receivables	355.8	345.5
Provision for impairment	(212.0)	(193.3)
Net trade receivables	143.8	152.2
Amounts owed by other Anglian Water Group Limited group undertakings	0.7	0.3
Other amounts receivable <sup>1</sup>	21.5	17.4
Prepayments and accrued income	364.6	315.8
	530.6	485.7

<sup>1</sup> Other amounts receivable includes £12.7 million VAT debtor (2019: £11.7 million) and various other immaterial debtors.

Prepayments and accrued income as at 31 March 2020 includes water and water recycling income not yet billed of £357.6 million (2019: £307.3 million). Of the £355.8 million trade receivables, £332.5 million (2019: £330.7 million) relates to residential customers, £0.6 million (2019: £4.5 million) relates to legacy non-household customer balances retained following market reform, and the remaining £22.7 million (2019: £10.3 million) relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

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

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water Services' customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of licenced retailers. 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. In March 2020, following consultation with regards to financial distress within the retail market, code changes were applied that allowed 50 per cent of the March 2020 bill to be deferred to two months and, subsequent to the year end, further changes have permitted deferrals of up to 40 per cent of wholesale charges relating to the April–July 2020 period. The principal retailer that Anglian Water transacts with is Wave Ltd, with £9.4 million receivables, as discussed above (2019: £nil), and £18.2 million of income accrued at 31 March 2020 (2019: £18.6 million).

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

	Group and Company	
	2020 £m	2019 £m
Provisions at the beginning of the year	193.3	183.1
Charge for bad and doubtful debts	40.7	26.5
Amounts written off during the year	(22.0)	(16.3)
<b>At 31 March</b>	<b>212.0</b>	<b>193.3</b>



# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 17 Analysis of net debt

The Group	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Net debt £m
<b>At 1 April 2018</b>	247.1	40.0	(6,451.7)	(731.8)	<b>(6,896.4)</b>
Cash flows					
Interest paid	(215.8)	-	34.9	3.5	<b>(177.4)</b>
Debt issue costs paid	(3.3)	-	3.3	-	-
Interest element of finance lease rental payments	(0.6)	-	-	-	<b>(0.6)</b>
Increase in amounts borrowed	447.8	-	(450.1)	-	<b>(2.3)</b>
Repayments of amounts borrowed	(140.0)	-	140.0	-	-
Principal settlement on derivatives	27.0	-	-	(27.0)	-
Repayment of principal on finance leases	(6.2)	-	6.2	-	-
Increase in short-term bank deposits	(257.0)	257.0	-	-	-
Proceeds from issue of shares	22.0	-	-	-	<b>22.0</b>
Non-financing cash flows <sup>2</sup>	136.3	-	-	-	<b>136.3</b>
	10.2	257.0	(265.7)	(23.5)	<b>(22.0)</b>
Movement in interest accrual on debt	-	-	(5.4)	-	<b>(5.4)</b>
Issue costs in relation to new borrowings	-	-	2.1	-	<b>2.1</b>
Amortisation of issue costs	-	-	(3.7)	-	<b>(3.7)</b>
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	<b>(129.6)</b>
Fair value gains and losses and foreign exchange	-	-	(112.5)	7.7	<b>(104.8)</b>
<b>At 31 March 2019</b>	257.3	297.0	(6,934.6)	(779.5)	<b>(7,159.8)</b>
At 1 April 2019	257.3	297.0	(6,934.6)	(779.5)	<b>(7,159.8)</b>
Change in accounting policy – IFRS 16	-	-	(33.4)	-	<b>(33.4)</b>
<b>At 1 April 2019 (under IFRS 16)</b>	257.3	297.0	(6,968.0)	(779.5)	<b>(7,193.2)</b>
Cash flows					
Interest paid	(229.3)	-	31.9	2.1	<b>(195.3)</b>
Debt issue costs paid	(2.6)	-	2.6	-	-
Interest on leases	(0.7)	-	-	-	<b>(0.7)</b>
Increase in amounts borrowed	815.9	-	(815.9)	-	-
Repayments of amounts borrowed	(220.3)	-	220.3	-	-
Principal settlement on derivatives	9.6	-	-	(9.6)	-
Repayment of principal on leases	(11.3)	-	11.3	-	-
Increase in short-term bank deposits	(22.0)	22.0	-	-	-
Non-financing cash flows <sup>2</sup>	132.5	-	-	-	<b>132.5</b>
	471.8	22.0	(549.8)	(7.5)	<b>(63.5)</b>





The Group	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Net debt £m
Movement in interest accrual on debt	-	-	(2.1)	-	(2.1)
New lease agreements	-	-	(7.8)	-	(7.8)
Termination of leases	-	-	1.8	-	1.8
Amortisation of issue costs	-	-	(3.9)	-	(3.9)
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	(114.5)
Fair value gains and losses and exchange movements	-	-	(117.7)	85.5	(32.2)
<b>At 31 March 2020</b>	<b>729.1</b>	<b>319.0</b>	<b>(7,725.3)</b>	<b>(738.2)</b>	<b>(7,415.4)</b>
<b>Net debt at 31 March 2020 comprises:</b>					
Non-current assets	-	-	-	317.3	317.3
Current assets	729.1	319.0	-	16.8	1,064.9
Current liabilities	-	-	(1,023.0)	(78.4)	(1,101.4)
Non-current liabilities	-	-	(6,702.3)	(993.9)	(7,696.2)
	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)

<sup>1</sup> Derivative financial instruments exclude the liability of £4.6 million (2019: £1.0 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

<sup>2</sup> Non-financing cash flows comprise net cash flows from operating activities of £645.7 million (2019: £670.5 million), less net cash used in investing activities of £445.4 million (2019: £466.3 million) and dividends paid of £67.8 million (2019: £68.0 million).

Energy hedges, excluded from net debt, are included within derivative financial instruments as follows:

	2020 £m	2019 £m
Non-current assets	0.5	5.1
Current assets	-	0.1
Current liabilities	(3.0)	(4.3)
Non-current liabilities	(2.1)	(1.9)
	(4.6)	(1.0)

The Company	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Net debt £m
<b>At 1 April 2018</b>	<b>245.4</b>	<b>40.0</b>	<b>(6,451.7)</b>	<b>(731.8)</b>	<b>(6,898.1)</b>
Cash flows					
Interest paid	(215.8)	-	34.9	3.5	(177.4)
Debt issue costs paid	(3.3)	-	3.3	-	-
Interest element of finance lease rental payments	(0.6)	-	-	-	(0.6)
Increase in amounts borrowed	447.8	-	(450.1)	-	(2.3)
Repayments of amounts borrowed	(140.0)	-	140.0	-	-
Principal settlement on derivatives	27.0	-	-	(27.0)	-
Repayment of principal on finance leases	(6.2)	-	6.2	-	-



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 17 Analysis of net debt (continued)

	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Net debt £m
<b>The Company</b>					
Increase in short-term bank deposits	(257.0)	257.0	-	-	-
Proceeds from issue of shares	22.0	-	-	-	22.0
Non-financing cash flows <sup>2</sup>	136.2	-	-	-	136.2
	10.1	257.0	(265.7)	(23.5)	(22.1)
Movement in interest accrual on debt	-	-	(5.4)	-	(5.4)
Issue costs in relation to new borrowings	-	-	2.1	-	2.1
Amortisation of issue costs	-	-	(3.7)	-	(3.7)
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	(129.6)
Fair value gains and losses and foreign exchange	-	-	(112.5)	7.7	(104.8)
<b>At 31 March 2019</b>	<b>255.5</b>	<b>297.0</b>	<b>(6,934.6)</b>	<b>(779.5)</b>	<b>(7,161.6)</b>
At 1 April 2019	255.5	297.0	(6,934.6)	(779.5)	(7,161.6)
Change in accounting policy – IFRS 16	-	-	(33.4)	-	(33.4)
<b>At 1 April 2019 (under IFRS 16)</b>	<b>255.5</b>	<b>297.0</b>	<b>(6,968.0)</b>	<b>(779.5)</b>	<b>(7,195.0)</b>
Cash flows					
Interest paid	(229.3)	-	31.9	2.1	(195.3)
Debt issue costs paid	(2.6)	-	2.6	-	-
Interest on finance leases	0.1	-	-	-	0.1
Interest on operating leases	(0.8)	-	-	-	(0.8)
Increase in amounts borrowed	815.9	-	(815.9)	-	-
Repayments of amounts borrowed	(220.3)	-	220.3	-	-
Principal settlement on derivatives	9.6	-	-	(9.6)	-
Repayment of principal on leases	(11.3)	-	11.3	-	-
Increase in short-term bank deposits	(22.0)	22.0	-	-	-
Non-financing cash flows <sup>2</sup>	134.2	-	-	-	134.2
	473.5	22.0	(549.8)	(7.5)	(61.8)
Movement in interest accrual on debt	-	-	(2.1)	-	(2.1)
New lease agreements	-	-	(7.8)	-	(7.8)
Termination of leases	-	-	1.8	-	1.8
Amortisation of issue costs	-	-	(3.9)	-	(3.9)
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	(114.5)
Fair value gains and losses and exchange movements	-	-	(117.7)	85.5	(32.2)
<b>At 31 March 2020</b>	<b>729.0</b>	<b>319.0</b>	<b>(7,725.3)</b>	<b>(738.2)</b>	<b>(7,415.5)</b>



The Company	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments <sup>1</sup> £m	Net debt £m
<b>Net debt at 31 March 2020 comprises:</b>					
Non-current assets	-	-	-	317.3	<b>317.3</b>
Current assets	729.0	319.0	-	16.8	<b>1,064.8</b>
Current liabilities	-	-	(1,023.0)	(78.4)	<b>(1,101.4)</b>
Non-current liabilities	-	-	(6,702.3)	(993.9)	<b>(7,696.2)</b>
	729.0	319.0	(7,725.3)	(738.2)	<b>(7,415.5)</b>

<sup>1</sup> Derivative financial instruments exclude the liability of £4.6 million (2019: £1.0 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

<sup>2</sup> Non-financing cash flows comprise net cash flows from operating activities of £647.6 million (2019: £670.5 million), less net cash used in investing activities of £445.6 million (2019: £466.3 million) and dividends paid of £67.8 million (2019: £68.0 million).

## 18 Trade and other payables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade payables	<b>34.7</b>	28.9	<b>34.7</b>	28.9
Capital creditors and accruals	<b>97.2</b>	87.9	<b>97.2</b>	87.9
Receipts in advance	<b>324.6</b>	299.6	<b>324.6</b>	299.6
Amounts owed to Group undertakings	<b>1.3</b>	0.8	<b>49.8</b>	47.4
Other taxes and social security	<b>4.8</b>	4.5	<b>4.8</b>	4.5
Accruals and deferred income	<b>51.0</b>	61.3	<b>51.0</b>	61.4
Other payables	<b>7.3</b>	9.0	<b>7.3</b>	9.0
	<b>520.9</b>	492.0	<b>569.4</b>	538.7

Receipts in advance includes £281.6 million (2019: £254.2 million) relating to amounts received from customers for water and water recycling charges in respect of bills that fall due in the following year.

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report of Anglian Water Services Limited.

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

There is no fixed payment date for amounts owed to Group undertakings and no interest is applied.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 19 Loans and other borrowings

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
£250 million 5.837% fixed rate 2022	259.1	258.8	259.1	258.8
£200 million 6.875% fixed rate 2023	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	202.8	202.8	202.8	202.8
£246 million 6.293% fixed rate 2030	257.5	255.5	257.5	255.5
£150 million 4.125% index-linked 2020	264.6	257.5	264.6	257.5
£75 million 3.666% index-linked 2024	125.7	122.3	125.7	122.3
£200 million 3.07% index-linked 2032	333.1	323.9	333.1	323.9
£60 million 3.07% index-linked 2032	100.9	98.2	100.9	98.2
IFRS 16 leases	49.4	21.4	49.4	21.4
£402 million 2.4% index-linked 2035	623.7	609.3	623.7	609.3
£50 million 1.7% index-linked 2046	74.8	72.7	74.8	72.7
£50 million 1.7% index-linked 2046	74.7	72.9	74.7	72.9
£40 million 1.7146% indexation bond 2056	60.2	58.6	60.2	58.6
£50 million 1.6777% indexation bond 2056	75.2	73.3	75.2	73.3
£60 million 1.7903% indexation bond 2049	90.2	87.8	90.2	87.8
£100 million 1.3784% indexation bond 2057	149.7	146.0	149.7	146.0
£50 million 1.3825% indexation bond 2056	74.8	73.0	74.8	73.0
£100 million Class A wrapped floating rate bonds	100.1	100.1	100.1	100.1
£75 million 1.449% indexation bond 2062	106.9	103.8	106.9	103.8
£50 million 1.52% indexation bond 2055	71.2	69.2	71.2	69.2
£110 million Class A unwrapped floating rate bonds 2043	110.1	110.1	110.1	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	-	33.6	-	33.6
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
EIB £50 million 1.626% index-linked term facility 2019	-	67.2	-	67.2
EIB £50 million 1.3% index-linked term facility 2020	-	66.2	-	66.2
£130 million 2.262% indexation bond 2045	171.8	168.0	171.8	168.0
US\$160 million 4.52% private placements 2021	135.3	127.7	135.3	127.7
US\$410 million 5.18% private placements 2021	335.1	318.6	335.1	318.6
EIB £75 million 0.53% index-linked term facility 2027 <sup>1</sup>	64.4	71.9	64.4	71.9
EIB £75 million 0.79% index-linked term facility 2027 <sup>1</sup>	64.4	71.9	64.4	71.9
£250 million 4.5% fixed rate 2027	252.7	252.4	252.7	252.4
£15 million 1.37% index-linked private placements 2022	18.1	17.6	18.1	17.6
£50 million 2.05% index-linked private placements 2033	60.3	59.0	60.3	59.0
£31.9 million 3.983% private placements 2022	32.5	32.4	32.5	32.4
<b>Sub-total</b>	<b>4,572.7</b>	<b>4,637.1</b>	<b>4,572.7</b>	<b>4,637.1</b>



	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
£73.3 million 4.394% private placements 2028	79.6	76.2	79.6	76.2
£22.3 million 3.983% private placements 2022	22.7	22.7	22.7	22.7
US\$47 million 5% private placements 2022	38.7	36.9	38.7	36.9
EIB £150 million 0% index-linked term facility 2028 <sup>2</sup>	142.8	157.0	142.8	157.0
£200 million Class B 4.5% fixed rate 2026	209.8	207.2	209.8	207.2
£35 million 1.141% index-linked bond 2042	41.3	40.3	41.3	40.3
US\$170 million 3.84% private placements 2023	150.7	135.7	150.7	135.7
£93 million 3.537% private placements 2023	94.3	94.2	94.3	94.2
US\$160 million 4.99% private placements 2023	130.6	124.4	130.6	124.4
EIB £65 million 0.41% index-linked term facility 2029	67.5	73.4	67.5	73.4
EIB Tranche 2 £125 million 0.1% 2029 <sup>3</sup>	135.6	139.6	135.6	139.6
EIB Tranche 3 £60 million 0.01% 2030 <sup>4</sup>	68.2	66.7	68.2	66.7
RCF £550 million <sup>5</sup>	548.0	(1.1)	548.0	(1.1)
RCF £100 million bilaterals	49.9	-	49.9	-
US\$150 million 3.29% private placements 2026	130.4	113.9	130.4	113.9
£55 million 2.93% fixed rate private placements 2026	55.3	55.3	55.3	55.3
£20 million 2.93% fixed rate private placements 2026	20.0	20.0	20.0	20.0
£35 million floating rate private placements 2031	34.7	34.7	34.7	34.7
£200 million Class B 2.6225% fixed rate 2027	203.6	199.9	203.6	199.9
£250 million Green Bond 1.625% 2025	258.7	250.6	258.7	250.6
£300 million Green bond 2.75% 2029	299.7	299.4	299.7	299.4
£25 million 3.0% fixed rate 2031	24.9	25.0	24.9	25.0
US\$53 million 3.053% fixed rate 2029	42.7	40.8	42.7	40.8
£85 million 2.88% fixed rate 2029	84.8	85.0	84.8	85.0
£65 million 2.87% fixed rate 2029	65.4	(0.3)	65.4	(0.3)
£65 million CPI 0.835% 2040	(0.4)	(0.4)	(0.4)	(0.4)
JPY 7 billion 0.855% fixed rate 2039	52.4	-	52.4	-
EDC £100 million 1.588% fixed rate 2028	100.2	-	100.2	-
Liquidity facilities	0.4	0.4	0.4	0.4
<b>Total loans and other borrowings</b>	<b>7,725.3</b>	<b>6,934.6</b>	<b>7,725.3</b>	<b>6,934.6</b>
<b>Included in:</b>				
Current liabilities	1,023.0	315.0	1,023.0	315.0
Non-current liabilities	6,702.3	6,619.6	6,702.3	6,619.6

<sup>1</sup> These instruments are amortising from 2017 until the date of maturity shown.

<sup>2</sup> This instrument is amortising from 2018 until the date of maturity shown.

<sup>3</sup> This instrument is amortising from 2019 until the date of maturity shown.

<sup>4</sup> This instrument is amortising from 2020 until the date of maturity shown.

<sup>5</sup> The Revolving Credit Facility was increased to £550 million in June 2019 (31 March 2019: £500 million) with maturity extended to 24 June 2024.





# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 19 Loans and other borrowings (continued)

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £77.8 million (2019: £97.7 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs of £31.7 million (2019: £32.5 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

A security agreement dated 30 July 2002 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) created a fixed and floating charge 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 2020, this charge applies to £7,675.8 million (2019: £6,913.2 million) of the debt listed above.

With the exception of issue costs capitalised and leases, all of the Company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the Group. The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Carrying value £m	Proportion hedged %	Accumulated hedge adjustments <sup>2</sup> £m	Discounted hedge adjustments £m
<b>March 2020</b>				
US\$150 million 3.29% private placements 2026	130.4	76	(8.7)	-
US\$160 million 4.52% private placements 2021	135.3	100	(5.0)	-
US\$170 million 3.84% private placements 2023	150.7	94	(11.8)	-
£200 million Class B 2.6225% fixed rate 2027	203.6	41	(3.7)	-
£200 million Class B 4.5% fixed rate 2026	209.8	50	(10.4)	-
£246 million 6.293% fixed rate 2030	257.5	20	(2.6)	-
£250 million Green Bond 1.625% 2025	258.7	100	(8.2)	-
£73.3 million 4.394% private placements 2028	79.6	100	(4.8)	-
US\$410 million 5.18% private placements 2021 <sup>1</sup>	334.9	-	0.2	0.2
<b>Total</b>	<b>1,760.5</b>		<b>(55.0)</b>	<b>0.2</b>

<sup>1</sup> This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015, resulting in the discontinued hedge adjustment.

<sup>2</sup> The movement in the accumulated hedge adjustment is shown within fair value gains and losses in the income statement.

	Carrying value £m	Proportion hedged %	Accumulated hedge adjustments <sup>3</sup> £m	Discounted hedge adjustments £m
<b>March 2019</b>				
US\$150 million 3.29% private placements 2026	113.9	76	1.9	-
US\$160 million 4.52% private placements 2021	127.7	100	(3.6)	-
US\$170 million 3.84% private placements 2023	135.7	94	(3.5)	-
£200 million Class B 2.6225% fixed rate 2027	199.9	41	(0.2)	-
£200 million Class B 4.5% fixed rate 2026	207.2	50	(8.1)	-
£246 million 6.293% fixed rate 2030	255.5	20	(0.8)	-
£250 million Green Bond 1.625% 2025	250.6	100	(0.5)	-
JPY 5 billion 3.22% fixed rate bond 2019/2038 <sup>1</sup>	33.6	100	1.4	0.1
£73.3 million 4.394% private placements 2028	76.2	100	1.4	-
US\$410 million 5.18% private placements 2021 <sup>2</sup>	318.6	-	0.4	0.4
<b>Total</b>	<b>1,718.9</b>		<b>(14.4)</b>	<b>0.5</b>

<sup>1</sup> This discontinued hedge balance relates to the novation of swaps within the relationship from one bank to another. No economic terms were changed.

<sup>2</sup> This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015, resulting in the discontinued balance.

<sup>3</sup> The movement in the accumulated hedge adjustment is shown within fair value gains and losses in the income statement.



## 20 Financial instruments

	Group				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Financial assets at amortised cost and cash equivalents £m	Investments – amortised cost £m	
<b>Financial assets by category</b>					
<b>At 31 March 2020</b>					
Investments					
Current – cash deposits	-	-	-	319.0	319.0
Cash and cash equivalents					
Current	-	-	729.1	-	729.1
Trade and other receivables					
Current	-	-	523.6	-	523.6
Derivative financial instruments					
Current	-	16.8	-	-	16.8
Non-current	68.8	249.0	-	-	317.8
	68.8	265.8	1,252.7	319.0	1,906.3
<b>At 31 March 2019</b>					
Investments					
Current – cash deposits	-	-	-	297.0	297.0
Cash and cash equivalents					
Current	-	-	257.3	-	257.3
Trade and other receivables					
Current	-	-	477.2	-	477.2
Derivative financial instruments					
Current	-	20.3	-	-	20.3
Non-current	42.4	153.2	-	-	195.6
	42.4	173.5	734.5	297.0	1,247.4

Trade and other receivables above exclude prepayments.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

	Company				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Financial assets at amortised cost and cash equivalents £m	Investments – amortised cost £m	
<b>Financial assets by category</b>					
<b>At 31 March 2020</b>					
Investments					
Current – cash deposits	-	-	-	319.0	319.0
Cash and cash equivalents					
Current	-	-	729.0	-	729.0
Trade and other receivables					
Current	-	-	523.6	-	523.6
Derivative financial instruments					
Current	-	16.8	-	-	16.8
Non-current	68.8	249.0	-	-	317.8
	68.8	265.8	1,252.6	319.0	1,906.2
<b>At 31 March 2019</b>					
Investments					
Current – cash deposits	-	-	-	297.0	297.0
Cash and cash equivalents					
Current	-	-	255.5	-	255.5
Trade and other receivables					
Current	-	-	477.2	-	477.2
Derivative financial instruments					
Current	-	20.3	-	-	20.3
Non-current	42.4	153.2	-	-	195.6
	42.4	173.5	732.7	297.0	1,245.6



Financial liabilities by category	Group			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
<b>At 31 March 2020</b>				
Borrowings				
Current	-	-	1,023.0	1,023.0
Non-current	-	-	6,702.3	6,702.3
Trade and other payables				
Current	-	-	196.3	196.3
Derivative financial instruments				
Current	76.5	4.9	-	81.4
Non-current	976.4	19.6	-	996.0
	<b>1,052.9</b>	<b>24.5</b>	<b>7,921.6</b>	<b>8,999.0</b>
<b>At 31 March 2019</b>				
Borrowings				
Current	-	-	315.0	315.0
Non-current	-	-	6,619.6	6,619.6
Trade and other payables				
Current	-	-	192.4	192.4
Derivative financial instruments				
Current	12.5	3.5	-	16.0
Non-current	960.7	19.7	-	980.4
	<b>973.2</b>	<b>23.2</b>	<b>7,127.0</b>	<b>8,123.4</b>

Trade and other payables above exclude receipts in advance.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

	Company			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
<b>Financial liabilities by category</b>				
<b>At 31 March 2020</b>				
Borrowings				
Current	-	-	1,023.0	1,023.0
Non-current	-	-	6,702.3	6,702.3
Trade and other payables				
Current	-	-	244.8	244.8
Derivative financial instruments				
Current	76.5	4.9	-	81.4
Non-current	976.4	19.6	-	996.0
	<b>1,052.9</b>	<b>24.5</b>	<b>7,970.1</b>	<b>9,047.5</b>
<b>At 31 March 2019</b>				
Borrowings				
Current	-	-	315.0	315.0
Non-current	-	-	6,619.6	6,619.6
Trade and other payables				
Current	-	-	239.1	239.1
Derivative financial instruments				
Current	12.5	3.5	-	16.0
Non-current	960.7	19.7	-	980.4
	<b>973.2</b>	<b>23.2</b>	<b>7,173.7</b>	<b>8,170.1</b>





	Group and Company			
	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
<b>Derivative financial instruments</b>				
<b>Designated as cash flow hedges</b>				
Interest rate swaps	-	(14.9)	-	(17.0)
Cross currency interest rate swaps	138.0	(4.5)	85.0	-
Energy swaps	0.5	(5.1)	5.2	(6.2)
	<b>138.5</b>	<b>(24.5)</b>	<b>90.2</b>	<b>(23.2)</b>
<b>Designated as fair value hedges</b>				
Interest rate swaps	32.1	-	13.1	-
Cross currency interest rate swaps	95.2	-	70.2	-
	<b>127.3</b>	<b>-</b>	<b>83.3</b>	<b>-</b>
<b>Derivative financial instruments designated as hedges</b>	<b>265.8</b>	<b>(24.5)</b>	<b>173.5</b>	<b>(23.2)</b>
Interest rate swaps and swaptions	17.5	(259.4)	11.7	(225.1)
RPI swaps	-	(631.1)	-	(607.0)
CPI swaps	51.3	(162.4)	30.7	(141.1)
<b>Total derivative financial instruments</b>	<b>334.6</b>	<b>(1,077.4)</b>	<b>215.9</b>	<b>(996.4)</b>
Derivative financial instruments can be analysed as follows:				
Current	16.8	(81.4)	20.3	(16.0)
Non-current	317.8	(996.0)	195.6	(980.4)
	<b>334.6</b>	<b>(1,077.4)</b>	<b>215.9</b>	<b>(996.4)</b>

At 31 March 2020, the fixed interest rates vary from 2.84 per cent to 5.99 per cent, floating rates vary from 0.60 per cent (LIBOR plus 0.0 bps) to 3.71 per cent (LIBOR plus 298.70 bps), RPI-linked interest rates vary from 1.02 per cent to 2.97 per cent plus RPI and CPI-linked interest rates vary from (0.90) per cent plus CPI to 1.69 per cent plus CPI. Gains and losses recognised in OCI and accumulated in the cash flow hedge reserve on interest rate and cross currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in OCI and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within finance costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IFRS 9, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2020 (2019: £nil).

### Leases

The minimum lease payments in respect of all lease commitments (2019 – operating leases only) fall due as follows:

	Group and Company	
	2020 £m	2019 £m
Within one year	12.0	6.7
Between one and five years	24.0	15.0
After five years	22.7	-
	<b>58.7</b>	<b>21.7</b>
Future finance charges on leases	(9.3)	(0.3)
Present value of lease liabilities	<b>49.4</b>	<b>21.4</b>



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

	Group			
	2020 Book value £m	2020 Fair value £m	2019 Book value £m	2019 Fair value £m
<b>Fair value of financial assets and liabilities</b>				
Cash and cash equivalents	729.1	729.1	257.3	257.3
Current asset investments – cash deposits	319.0	319.0	297.0	297.0
Borrowings				
Current	(1,023.0)	(1,023.6)	(315.0)	(315.8)
Non-current	(6,702.3)	(8,477.6)	(6,619.6)	(8,316.2)
Interest and cross currency interest rate swaps – assets				
Current	12.1	12.1	20.2	20.2
Non-current	270.7	270.7	159.8	159.8
Interest and cross currency interest rate swaps – liabilities				
Current	(6.3)	(6.3)	(3.6)	(3.6)
Non-current	(272.5)	(272.5)	(238.5)	(238.5)
RPI swaps – liabilities				
Current	(72.1)	(72.1)	(8.1)	(8.1)
Non-current	(559.0)	(559.0)	(598.9)	(598.9)
CPI swaps – assets				
Current	4.7	4.7	-	-
Non-current	46.6	46.6	30.7	30.7
CPI swaps – liabilities				
Non-current	(162.4)	(162.4)	(141.1)	(141.1)
Net debt	(7,415.4)	(9,191.3)	(7,159.8)	(8,857.2)
Energy hedging derivatives – assets				
Current	-	-	0.1	0.1
Non-current	0.5	0.5	5.1	5.1
Energy hedging derivatives – liabilities				
Current	(3.0)	(3.0)	(4.3)	(4.3)
Non-current	(2.1)	(2.1)	(1.9)	(1.9)
	(7,420.0)	(9,195.9)	(7,160.8)	(8,858.2)



	Company			
	2020 Book value £m	2020 Fair value £m	2019 Book value £m	2019 Fair value £m
<b>Fair value of financial assets and liabilities</b>				
Cash and cash equivalents	729.0	729.0	255.5	255.5
Current asset investments – cash deposits	319.0	319.0	297.0	297.0
Borrowings				
Current	(1,023.0)	(1,023.6)	(315.0)	(315.8)
Non-current	(6,702.3)	(8,477.6)	(6,619.6)	(8,316.2)
Interest and cross currency interest rate swaps – assets				
Current	12.1	12.1	20.2	20.2
Non-current	270.7	270.7	159.8	159.8
Interest and cross currency interest rate swaps – liabilities				
Current	(6.3)	(6.3)	(3.6)	(3.6)
Non-current	(272.5)	(272.5)	(238.5)	(238.5)
RPI swaps – liabilities				
Current	(72.1)	(72.1)	(8.1)	(8.1)
Non-current	(559.0)	(559.0)	(598.9)	(598.9)
CPI swaps – assets				
Current	4.7	4.7	-	-
Non-current	46.6	46.6	30.7	30.7
CPI swaps – liabilities				
Non-current	(162.4)	(162.4)	(141.1)	(141.1)
Net debt	(7,415.5)	(9,191.4)	(7,161.6)	(8,859.0)
Energy hedging derivatives – assets				
Current	-	-	0.1	0.1
Non-current	0.5	0.5	5.1	5.1
Energy hedging derivatives – liabilities				
Current	(3.0)	(3.0)	(4.3)	(4.3)
Non-current	(2.1)	(2.1)	(1.9)	(1.9)
	(7,420.1)	(9,196.0)	(7,162.6)	(8,860.0)



# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 20 Financial instruments (continued)

### Fair value of financial assets and liabilities continued

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

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

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

Derivative transactions expose the Group to credit risk against the counterparties concerned. 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 enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 13 'Fair value measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked transactions where inputs are obtained from a less liquid market. In both cases, valuations have been obtained by discounting the estimated future cash flows at a rate that reflects credit risk.

There have been no transfers between level 1, level 2 and level 3 fair value measurements in the year. The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer occurred.

### Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI-linked inflation swaps that are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

Movements in the year to 31 March 2020 for assets and liabilities measured at fair value using level 3 valuation inputs are presented below:

	Group and Company	
	2020 £m	2019 £m
At the beginning of the period	(110.4)	-
Net loss for the year	(0.6)	(110.4)
<b>At the end of the period</b>	<b>(111.0)</b>	<b>(110.4)</b>

Gains and losses in the period are recognised in fair value (losses)/gains on derivatives within the profit and loss.

The impact on a post-tax basis of reasonably possible changes in the significant assumptions used in valuing liabilities classified as level 3 within the fair value hierarchy are as follows:

	Group and Company	
	2020 £m	2019 £m
<b>Gain/(loss)</b>		
1% increase in interest rates	72.9	47.6
1% decrease in interest rates	(86.6)	(60.3)
1% increase in inflation rates	(182.0)	(152.4)
1% decrease in inflation rates	152.8	126.0

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.



### Control of Treasury

The Treasury team, which reports directly to the Chief Financial Officer, 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 activities of the Treasury function 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 Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2020, 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 78.4 per cent (2019: 78.1 per cent).

The Group has also raised finance within Osprey Holdco Limited, and Osprey Acquisitions Limited through its financing subsidiary Anglian Water (Osprey) Financing Plc.

### Borrowing covenants

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

### Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in October 2019 and treasury matters are reported to the Board each month.

A Finance, Treasury and Energy Policy Group, including the Chief Financial Officer 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.

### Covid-19 market impact

The impact of Covid-19 on the financing of the Group is primarily an increase in volatility and uncertainty. This has impacted on the Group's reported valuation of derivatives and debt, which have varied based on movements in interest rates, credit spreads and inflation rates as the market has sought to incorporate the risks associated with the pandemic. On funding, Anglian Water benefits from being a regulated utility and as such capital markets have remained accessible at competitive rates for the water industry.

### Covid-19 financial instruments reporting impact

This volatility in the financial markets primarily drives increased uncertainty around the pricing of the Group's derivatives through time as the valuation can shift on a daily basis as market benchmarks move, generating unrealised fair value gains and losses in the business (see Other items in the Group income statement). As these instruments are used to hedge long-dated funding within the Group, and unrealised gains and losses do not generate a tax impact, this volatility does not result in a cash impact on the Group.

In terms of the point in time valuation contained in these accounts, despite additional volatility, markets have remained open and liquid for the key benchmark rates utilised in the valuation of our debt and derivative portfolio (noting CPI as an exception which was previously classified as level 3 in the fair value hierarchy and remains illiquid). As such, there is no impact on the classification of financial instruments within the fair value hierarchy. Similarly, the benchmarks used for sensitivity analysis on the financial instruments portfolio have also been subject to review in light of the increase in volatility. The benchmarks use of 1 per cent on interest rates and inflation rates and the 10 per cent price difference used for commodities have been retained as they still reflect an appropriate benchmark for the scale of market movements being observed.

### (a) Market risk

#### i Foreign currency

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

Where exposures arise out of debt issuances in currencies other than sterling, this risk is hedged using cross currency interest rate swaps on the date the debt issuance is contracted. The Group assesses the economic relationship by comparing the currency cash flows on the underlying debt instrument with the currency cash flows on the hedge to ensure an exact offset of the specific foreign currency flows of the debt is achieved. This results in a notional hedge ratio of one for all foreign currency hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as detailed on the next page:





## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

	Group and Company			
	Within one year m	Between one and five years m	Between five and 25 years m	Total m
<b>At 31 March 2020</b>				
<b>Foreign currency borrowings – Hedged item</b>				
JPY	-	-	7,000.0	<b>7,000.0</b>
USD	-	947.0	203.0	<b>1,150.0</b>
<b>Cross currency interest rate swap – Cash flow hedge</b>				
USD	-	(627.8)	(89.0)	<b>(716.8)</b>
<b>Cross currency interest rate swap – Fair value hedge</b>				
JPY	-	-	(7,000.0)	<b>(7,000.0)</b>
USD	-	(319.2)	(114.0)	<b>(433.2)</b>
<b>Net currency exposure</b>	-	-	-	-
<b>Weighted average spot rate</b>				
JPY	-	-	137.6	
USD	-	1.6	1.4	
<b>At 31 March 2019</b>				
<b>Foreign currency borrowings – Hedged item</b>				
JPY	5,000.0	-	-	5,000.0
USD	-	947.0	203.0	1,150.0
<b>Cross currency interest rate swap – Cash flow hedge</b>				
JPY	-	(627.8)	(89.0)	(716.8)
USD	-	-	-	-
<b>Cross currency interest rate swap – Fair value hedge</b>				
JPY	(5,000.0)	-	-	(5,000.0)
USD	-	(319.2)	(114.0)	(433.2)
<b>Net currency exposure</b>	-	-	-	-
<b>Weighted average spot rate</b>				
JPY	199.4	-	-	
USD	-	1.6	1.4	

Hedge ineffectiveness on currency hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).



Currency basis that forms part of the pricing of cross currency interest rate swaps is treated as a cost of hedging for all foreign currency hedge designations and as such is only a source of ineffectiveness where hedge accounting has been interrupted.

#### ii Interest rate and inflation rate risk

The Group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at circa 50 per cent of RCV for index-linked debt and between 5 per cent and 15 per cent for floating rate debt, with the remaining being fixed rate. Within these hedging levels, the Group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for 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 table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and Company			
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
<b>At 31 March 2020</b>				
Fixed	(3,522.0)	967.5	(2,554.5)	5.0
Floating	(859.7)	(182.6)	(1,042.3)	2.0
Index-linked	(3,052.4)	(857.7)	(3,910.1)	5.0
Operating leases	(31.0)	-	(31.0)	3.0
	<b>(7,465.1)</b>	<b>(72.8)</b>	<b>(7,537.9)</b>	
<b>At 31 March 2019</b>				
Fixed	(3,296.5)	915.6	(2,380.9)	4.8
Floating	(266.4)	(150.1)	(416.5)	2.6
Index-linked	(3,160.2)	(832.4)	(3,992.6)	5.9
	<b>(6,723.1)</b>	<b>(66.9)</b>	<b>(6,790.0)</b>	

Where exposures arising out of debt issuances are swapped, this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The Group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as detailed in the derivative financial instruments disclosure above. The table on the next page includes all derivative transactions in order to provide a complete overview. Derivatives that do not qualify for hedge accounting are principally those relationships which swap debt into inflation.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

#### ii Interest rate and inflation rate risk (continued)

	Group and Company						Interest rate average	
	Within one year m	Between one and five years m	Between five and 25 years m	After 25 years m	Mark to market m	payable %	receivable %	
<b>At 31 March 2020</b>								
<b>Interest rate swap</b>								
Floating to fixed rate	-	456.0	40.8	258.3	(212.9)	4.4	1.4	
Floating from fixed rate	-	325.5	729.5	-	75.5	0.9	1.3	
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(87.4)	3.7	2.3	
<b>Inflation swaps</b>								
Floating to RPI	-	175.0	225.0	165.9	(631.9)	2.8	1.0	
Fixed to CPI	-	-	365.9	300.0	(16.0)	0.8	3.6	
Floating to CPI	-	-	-	100.0	(94.2)	1.7	0.6	
<b>Cross currency swaps</b>								
JPY	-	-	50.9	-	(4.5)	2.7	0.9	
USD	-	600.6	144.3	-	233.2	3.2	4.6	
<b>Total</b>	<b>-</b>	<b>1,657.3</b>	<b>2,137.6</b>	<b>824.2</b>	<b>(738.2)</b>			
<b>At 31 March 2019</b>								
<b>Interest rate swap</b>								
Floating to fixed rate	-	372.3	113.8	274.0	(179.1)	4.7	1.4	
Floating from fixed rate	-	161.7	893.3	-	50.1	0.9	2.2	
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(88.2)	3.7	2.4	
<b>Inflation swaps</b>								
Floating to RPI	-	25.0	150.0	390.9	(607.0)	2.6	1.3	
Fixed to CPI	-	-	315.0	300.0	(110.4)	1.2	3.5	
<b>Cross currency swaps</b>								
JPY	25.1	-	-	-	9.8	2.1	3.2	
USD	-	600.6	144.3	-	145.3	3.3	4.6	
<b>Total</b>	<b>25.1</b>	<b>1,259.8</b>	<b>2,197.7</b>	<b>964.9</b>	<b>(779.5)</b>			

Hedge ineffectiveness on interest rate hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate ineffectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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



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

	Group and Company	
	2020 £m	2019 £m
<b>Increase/(decrease) in profit before tax and in pre-tax equity</b>		
1% increase in interest rates	267.0	235.9
1% decrease in interest rates	(355.6)	(460.2)

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

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

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to inflation-linked derivatives;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

#### Debt instruments

The following analysis shows the impact of a 1 per cent change in RPI and a 1 per cent change in CPI over the 12-month period to the reporting date on index-linked debt instruments.

The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in inflation rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which until March 2020 are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary.

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

	Group and Company	
	2020 £m	2019 £m
<b>Increase/(decrease) in profit before tax and in pre-tax equity</b>		
1% increase in inflation	(27.9)	(29.3)
1% decrease in inflation	26.0	29.3

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

#### 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. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

	Group and Company	
	2020 £m	2019 £m
<b>Increase/(decrease) in profit before tax and in pre-tax equity</b>		
1% increase in RPI	(229.0)	(249.4)
1% decrease in RPI	178.8	194.4

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Anglian Water continues to closely monitor the impact of Interest Rate Benchmark Reform in both the debt and derivative markets. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA), regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR. As market convention is finalised, Anglian Water will seek to transition its existing portfolio of transactions.

In response to the announcements, the Group is identifying where IBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates. For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks in this context.



# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 20 Financial instruments (continued)

### ii Interest rate and inflation rate risk (continued)

LIBOR-linked instruments make up 5 per cent or circa £400 million of the Group's long-term debt portfolio after the impact of swaps. There are three debt issuances totalling £245 million held in the portfolio linked to three- or six-month sterling LIBOR, which are subject to economic hedging but are not designated in hedging relationships. In addition to debt instruments, the Group retains a net £182.6 million floating position as a result of the swap portfolio. These swaps are designated in a number of fair value hedge relationships. In maintaining these fair value hedge relationships, the Group has assumed, as permitted by the Interest Rate Benchmark Reform amendment to IFRS 9, that the LIBOR benchmarks used will continue to provide a valid hedge to fair value movements due to floating rates of interest over the remaining life of the underlying transactions. In total, a notional amount of £836 million of swaps are included in fair value hedge relationships. A portion of the debt and derivatives portfolio highlighted above are subject to inflation-linked economic hedges for which hedge accounting is not currently permitted.

In addition, Anglian Water holds a £25 million pre-issuance hedge to fix the future cost of borrowing. In maintaining this cash flow hedge relationship, the Group has assumed, as permitted by the Interest Rate Benchmark Reform amendment to IFRS 9, that the highly probable LIBOR-based cash flows on which the hedged cash flows are based is not altered as a result of benchmark reform.

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms to which the Group is exposed. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall-back clauses that have yet to be added to the Group's contracts and the negotiation with lenders.

### iii Commodity price risk

The Group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow. The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the Group designates the swaps in cash flow hedge relationships.

	Group and Company			
	Within one year MW	Between one and five years MW	Between five and 25 years MW	Mark to market £m
<b>At 31 March 2020</b>				
Electricity swap	-	171.8	71.7	(4.6)
<b>Total</b>	<b>-</b>	<b>171.8</b>	<b>71.7</b>	<b>(4.6)</b>
<b>At 31 March 2019</b>				
Electricity swap	147.7	162.4	70.0	(1.0)
<b>Total</b>	<b>147.7</b>	<b>162.4</b>	<b>70.0</b>	<b>(1.0)</b>

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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

	Group and Company	
	2020 £m	2019 £m
<b>Increase/(decrease) in profit before tax and in pre-tax equity</b>		
10% increase in original prices	3.9	7.6
10% decrease in original prices	(3.9)	(7.5)

Ten per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

### (b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The Group's largest trade receivable balance is in 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 18.

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. The credit rating applied to all counterparties is reviewed monthly and on an ongoing basis.





All cash and 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/AAAmf or higher.

In the case of derivatives, the following table sets out the Group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts that do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column 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.

	Group and Company				
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
<b>At 31 March 2020</b>					
Derivative financial assets	360.6	(26.0)	334.6	(140.4)	194.2
Derivative financial liabilities	(1,103.4)	26.0	(1,077.4)	140.4	(937.0)
<b>At 31 March 2019</b>					
Derivative financial assets	241.6	(25.7)	215.9	(93.4)	122.5
Derivative financial liabilities	(1,022.1)	25.7	(996.4)	93.4	(903.0)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid. Offsetting not presented in the balance sheet reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March 2020, the maximum exposure to credit risk for the Group is represented by the carrying amount of each financial asset in the Group balance sheet including:

	Group	
	2020 £m	2019 £m
Cash and cash equivalents	729.1	257.3
Trade and other receivables	530.6	485.7
Investments – cash deposits	319.0	297.0
Derivative financial assets	334.6	215.9
	Company	
	2020 £m	2019 £m
Cash and cash equivalents	729.0	255.5
Trade and other receivables	530.6	485.7
Investments – cash deposits	319.0	297.0
Derivative financial assets	334.6	215.9

### (c) Capital risk management

The prime responsibility of the Group's Treasury function is the efficient and effective management of financial resources within the Group, i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. The Treasury function will actively seek opportunities to raise debt, 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 maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 20 Financial instruments (continued)

#### (d) Liquidity risk

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

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

The Group has the following undrawn committed borrowing facilities available at 31 March 2020 in respect of which all conditions precedent had been met at that date:

	Group	
	2020 £m	2019 £m
Expires:		
Within one year	450.0	400.0
Between one and two years	-	100.0
Between two and five years	-	500.0
	<b>450.0</b>	<b>1,000.0</b>

The Group's borrowing facilities of £1,050.0 million (2019: £1,000.0 million) comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Abbey National Treasury Services Plc and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services Plc and Commonwealth Bank Of Australia; a syndicated £500.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and two bilateral facilities of £50.0 million each with Bank of China Limited and Sumitomo Mitsui Banking Corporation for general corporate purposes.

The table below analyses the Group's financial liabilities and 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				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
<b>At 31 March 2020</b>					
Trade and other payables	(196.3)	-	-	-	(196.3)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	-	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	-	1,124.6
Leases	(12.0)	(24.0)	(22.7)	-	(58.7)
	<b>(1,345.5)</b>	<b>(2,524.0)</b>	<b>(6,596.6)</b>	<b>(3,101.1)</b>	<b>(13,567.2)</b>
<b>At 31 March 2019</b>					
Trade and other payables	(192.4)	-	-	-	(192.4)
Borrowings	(353.1)	(2,546.8)	(5,680.6)	(3,243.5)	(11,824.0)
Derivative financial instruments (net settled)	(11.1)	(68.2)	(851.0)	(997.1)	(1,927.4)
Derivative financial instruments (gross settled outflow)	(50.0)	(673.3)	(156.7)	-	(880.0)
Derivative financial instruments (gross settled inflow)	75.2	836.6	173.3	-	1,085.1
Leases	(10.9)	(30.1)	(27.8)	-	(68.8)
	<b>(542.3)</b>	<b>(2,481.8)</b>	<b>(6,542.8)</b>	<b>(4,240.6)</b>	<b>(13,807.5)</b>



	Company				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
<b>At 31 March 2020</b>					
Trade and other payables	(244.8)	-	-	-	(244.8)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	-	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	-	1,124.6
Leases	(12.0)	(24.0)	(22.7)	-	(58.7)
	(1,394.0)	(2,524.0)	(6,596.6)	(3,101.1)	(13,615.7)
<b>At 31 March 2019</b>					
Trade and other payables	(239.1)	-	-	-	(239.1)
Borrowings	(353.1)	(2,546.8)	(5,680.6)	(3,243.5)	(11,824.0)
Derivative financial instruments (net settled)	(11.1)	(68.2)	(851.0)	(997.1)	(1,927.4)
Derivative financial instruments (gross settled outflow)	(50.0)	(673.3)	(156.7)	-	(880.0)
Derivative financial instruments (gross settled inflow)	75.2	836.6	173.3	-	1,085.1
Leases	(10.9)	(30.1)	(27.8)	-	(68.8)
	(589.0)	(2,481.8)	(6,542.8)	(4,240.6)	(13,854.2)

## 21 Provisions

	Group and Company				Total £m
	Onerous leases £m	Legal and other £m	Coupon enhance- ment £m	Restructuring £m	
At 1 April 2019	0.6	5.2	6.4	-	12.2
Change in accounting policy – IFRS 16	(0.6)	-	-	-	(0.6)
At 1 April 2019 (under IFRS 16)	-	5.2	6.4	-	11.6
Additional provisions recognised	-	1.8	-	4.7	6.5
Unused amounts reversed	-	(1.2)	-	-	(1.2)
Unwinding of discount	-	-	2.1	-	2.1
Utilised in the year	-	(0.3)	(2.0)	-	(2.3)
<b>At 31 March 2020</b>	-	5.5	6.5	4.7	16.7

### Maturity analysis of total provisions

	2020 £m	2019 £m
Current	6.2	4.2
Non-current	10.5	8.0
	16.7	12.2



# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 21 Provisions (continued)

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 20 years.

The onerous lease provision was in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them.

On adoption of IFRS 16, as permitted by the standard, the remaining onerous lease provision was used to adjust the carrying amount of the right-of-use asset instead of performing an impairment review at the date of adoption.

Provisions for legal and other claims of £5.5 million (2019: £5.2 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.

## 22 Deferred tax

	Group and Company					Total £m
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	
At 1 April 2018	1,099.1	(137.4)	1.7	(37.0)	31.0	<b>957.4</b>
Charged/(credited) directly to income statement	(13.3)	(16.2)	2.1	-	(33.6)	<b>(61.0)</b>
Charged/(credited) directly to other comprehensive income	-	6.5	(3.1)	-	-	<b>3.4</b>
Offset against corporation tax liability	-	-	-	37.0	-	<b>37.0</b>
<b>At 31 March 2019</b>	<b>1,085.8</b>	<b>(147.1)</b>	<b>0.7</b>	-	<b>(2.6)</b>	<b>936.8</b>
Charged/(credited) directly to income statement	153.7	(21.4)	5.2	-	(2.6)	<b>134.9</b>
Charged directly to other comprehensive income	-	3.1	18.8	-	-	<b>21.9</b>
<b>At 31 March 2020</b>	<b>1,239.5</b>	<b>(165.4)</b>	<b>24.7</b>	-	<b>(5.2)</b>	<b>1,093.6</b>

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

## 23 Pension commitments

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the Anglian Water Group Pension Scheme (AWGPS). Hartlepool Water Limited was acquired in July 1997, trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018, all employees now have the option to participate in a new high quality defined contribution scheme which offers an equitable scheme with more flexible benefits.

Full valuations as at 31 March 2017 have been completed for the AWGPS (including the Hartlepool section) scheme, and as at 1 April 2017 for MPLAP, the results of which have been used as a basis for the IAS 19 'Employee benefits' disclosures as at 31 March 2020.

The Group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

With effect from 1 April 2018, future service contributions for both the Main Section and Hartlepool Section of the AWGPS ceased as there was no future accrual of benefits. During the year, the Group contributed £15.1 million (2019: £12.5 million) deficit reduction payments. There were no deficit reduction payments (2019: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2017 valuation.

In the year to 31 March 2021, employers' contributions are expected to be £13.2 million.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 22 years, for the Hartlepool section of AWGPS is 18 years and for the unfunded scheme is 12 years.

The pension deficit at 31 March 2019 includes a £3.3 million provision for the accounting impact of guaranteed minimum pension equalisation. This is disclosed as a past service cost in part of this note.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £17.7 million (2019: £16.9 million).

**(a) Principal actuarial assumptions**

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

	2020 % pa	2019 % pa
Discount rate	2.4	2.4
Inflation rate		
RPI	2.7	3.3
CPI	1.9	2.3
Increase to deferred benefits during deferment		
RPI	2.7	3.3
CPI	1.9	2.3
Increases to inflation-related pensions in payment <sup>1</sup>		
RPI	2.6	3.2
CPI	1.9	2.3

	2020 Years	2019 Years
Longevity at age 65 for current pensioners		
Men	22.5	22.4
Women	24.5	22.5
Longevity at age 65 for future pensioners <sup>2</sup>		
Men	23.8	23.7
Women	25.9	25.7

<sup>1</sup> For RPI pension increases capped at 5 per cent per annum.

<sup>2</sup> The life expectancy shown for future pensioners is for those reaching 65 in 2039.

**(b) Sensitivity analysis**

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

	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
<b>At 31 March 2020</b>					
Discount rate	+/- 0.5% pa	-116/+128	-1/+1	-3/+3	<b>-120/+132</b>
Rate of RPI inflation	+/- 0.5% pa	+110/-101	+1/-1	+3/-3	<b>+114/-105</b>
Life expectancy	+/- 1 year	+46/-44	+1/-1	+1/-1	<b>+48/-46</b>

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. These changes in assumptions represent a reasonable alternative range, as well as a useful benchmark change.

**(c) Risk and risk management**

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

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

**Asset volatility**

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

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

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





# Notes to the Group financial statements continued

for the year ended 31 March 2020

## 23 Pension commitments (continued)

### (c) Risk and risk management (continued)

#### Covid-19 market impact

The impact of Covid-19 on the Group's defined benefit pension scheme assets is primarily an increase in volatility and uncertainty. This has impacted on the Group's reported scheme asset valuations, which have varied based on movements in credit spreads, equity and property prices, interest rates and inflation rates as the market has sought to incorporate the risks associated with the pandemic.

#### Covid-19 pension scheme reporting impact

This volatility in the financial markets primarily drives increased uncertainty around the pricing of the assets in the Group's defined benefit pension schemes as the valuation can shift on a daily basis as market benchmarks move generating changes to the deficit positions. In terms of the point in time valuation contained in these accounts, despite additional volatility, markets have remained open and liquid for the key benchmark rates utilised in the valuation of our pension scheme assets.

The majority of assets have quoted prices in active markets, but there are private credit and property investments which are unquoted amounting to £262.0 million. Due to the unprecedented market situation related to Covid-19, valuation of the asset categories requiring judgement (in particular, property) is subject to significant uncertainty at the balance sheet date. Consequently, a higher degree of caution should be attached to the valuation of those assets than would normally be the case.

#### 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 outturn 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
<b>2020</b>				
<b>Amounts credited/(expensed) to finance costs:</b>				
Interest income on scheme assets	35.8	0.7	-	36.5
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.1)	(36.3)
<b>Net interest income/(expense)</b>	<b>1.1</b>	<b>0.2</b>	<b>(1.1)</b>	<b>0.3</b>
<b>Amounts (charged)/credited to the income statement</b>	<b>1.1</b>	<b>0.2</b>	<b>(1.1)</b>	<b>0.3</b>
<b>Amounts (charged)/credited to other comprehensive income:</b>				
Return on plan assets (excluding amounts included in net interest)	(4.8)	0.7	-	(4.1)
Actuarial gains arising from:				
Changes in financial assumptions	109.1	1.0	2.4	112.5
<b>Net credit/(charge) to other comprehensive income</b>	<b>104.3</b>	<b>1.7</b>	<b>2.4</b>	<b>108.4</b>

**(d) Amounts recognised in comprehensive income**

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
<b>2019</b>				
Amounts charged to staff costs within operating profit:				
Past service cost	(3.3)	-	-	(3.3)
Total operating charge	(3.3)	-	-	(3.3)
Amounts credited/(expensed) to finance costs:				
Interest income on scheme assets	39.3	0.6	-	39.9
Interest cost on scheme liabilities	(37.8)	(0.5)	(1.2)	(39.5)
Net interest income/(expense)	1.5	0.1	(1.2)	0.4
Amounts (charged)/credited to the income statement	(1.8)	0.1	(1.2)	(2.9)
Amounts (charged)/credited to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	24.3	0.5	-	24.8
Changes in financial assumptions	(38.4)	(0.3)	-	(38.7)
Experience adjustments	(4.6)	(0.1)	(0.2)	(4.9)
Net (charge)/credit to other comprehensive income	(18.7)	0.1	(0.2)	(18.8)

**(e) Amounts recognised in the balance sheet**

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
<b>2020</b>				
Equities	18.1	0.2	-	18.3
Corporate bonds	979.5	-	-	979.5
Government bonds	402.7	24.3	-	427.0
Property	65.3	-	-	65.3
Other	8.7	-	-	8.7
Total assets	1,474.3	24.5	-	1,498.8
Present value of scheme liabilities	(1,311.2)	(16.0)	(41.6)	(1,368.8)
<b>Net pension surplus/(deficit)</b>	<b>163.1</b>	<b>8.5</b>	<b>(41.6)</b>	<b>130.0</b>
Comprising:				
Pension schemes with a net surplus, included in non-current assets	163.1	8.5	-	171.6
Pension schemes with a net deficit, included in non-current liabilities	-	-	(41.6)	(41.6)
	163.1	8.5	(41.6)	130.0



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 23 Pension commitments (continued)

(e) Amounts recognised in the balance sheet (continued)

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
<b>2019</b>				
Equities	75.5	0.3	-	75.8
Corporate bonds	992.1	-	-	992.1
Government bonds	386.8	24.7	-	411.5
Property	68.2	-	-	68.2
Other	15.5	0.1	-	15.6
<b>Total assets</b>	<b>1,538.1</b>	<b>25.1</b>	<b>-</b>	<b>1,563.2</b>
Present value of scheme liabilities	(1,495.4)	(18.5)	(45.8)	(1,559.7)
<b>Net pension surplus/(deficit)</b>	<b>42.7</b>	<b>6.6</b>	<b>(45.8)</b>	<b>3.5</b>
Comprising:				
Pension schemes with a net surplus, included in non-current assets	42.7	6.6	-	49.3
Pension schemes with a net deficit, included in non-current liabilities	-	-	(45.8)	(45.8)
	42.7	6.6	(45.8)	3.5

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, nor other assets used by, the Group. All scheme assets are quoted at their market values.

(f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2018	1,551.1	27.3	-	1,578.4
Interest income on scheme assets	39.3	0.6	-	39.9
Employers' contributions	13.2	-	2.8	16.0
Benefits paid	(89.8)	(3.3)	(2.8)	(95.9)
Return on plan assets (excluding interest income)	24.3	0.5	-	24.8
<b>At 31 March 2019</b>	<b>1,538.1</b>	<b>25.1</b>	<b>-</b>	<b>1,563.2</b>
Interest income on scheme assets	35.8	0.7	-	36.5
Employers' contributions	15.0	-	2.8	17.8
Benefits paid	(109.8)	(2.0)	(2.8)	(114.6)
Return on plan assets (excluding interest income)	(4.8)	0.7	-	(4.1)
<b>At 31 March 2020</b>	<b>1,474.3</b>	<b>24.5</b>	<b>-</b>	<b>1,498.8</b>

(g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2018	(1,501.1)	(21.0)	(47.2)	(1,569.3)
Past service cost	(3.3)	-	-	(3.3)
Interest cost on scheme liabilities	(37.8)	(0.5)	(1.2)	(39.5)
Benefits paid	89.8	3.3	2.8	95.9
Actuarial loss	(43.0)	(0.3)	(0.2)	(43.5)
<b>At 31 March 2019</b>	<b>(1,495.4)</b>	<b>(18.5)</b>	<b>(45.8)</b>	<b>(1,559.7)</b>
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.0)	(36.2)
Benefits paid	109.8	2.0	2.8	114.6
Actuarial gain	109.1	1.0	2.4	112.5
<b>At 31 March 2020</b>	<b>(1,311.2)</b>	<b>(16.0)</b>	<b>(41.6)</b>	<b>(1,368.8)</b>



## 24 Share capital

	Group and Company	
	2020 £m	2019 £m
<b>Allotted, issued and fully paid</b>		
32 million ordinary shares of £1 each	32.0	32.0
	<b>32.0</b>	<b>32.0</b>

## 25 Hedging reserve

	Group and Company	
	2020 £m	2019 £m
At 1 April (as previously reported)	(75.9)	(105.3)
Change in accounting policy – IFRS 9	-	(3.8)
At 1 April (restated)	(75.9)	(109.1)
(Losses)/gains on cash flow energy hedges	(1.7)	9.8
Amounts transferred to the income statement	(4.1)	(3.2)
Gains/(losses) on cash flow hedges	53.8	(10.8)
Amounts transferred to the income statement from discontinuation of cash flow hedges	8.0	4.7
Exchange movement on hedging instruments related to debt in cash flow hedges	(29.2)	38.8
Deferred tax movement on cash flow hedges	(3.2)	(6.1)
<b>At 31 March</b>	<b>(52.3)</b>	<b>(75.9)</b>

	Group and Company	
	2020 £m	2019 £m
<b>Cost of hedging reserve</b>		
At 1 April (as previously reported)	2.0	-
Change in accounting policy – IFRS 9	-	1.8
At 1 April (restated)	2.0	1.8
Amounts transferred to the income statement	(0.4)	(0.3)
(Losses)/gains on cash flow hedges	(0.6)	0.9
Deferred tax movement on cash flow hedges	0.1	(0.4)
<b>At 31 March</b>	<b>1.1</b>	<b>2.0</b>

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments, excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component.

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Annual movements		Cumulative reserves			
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
<b>At 31 March 2020</b>						
Cash flow hedge of interest rate risk	46.6	0.5	8.8	(72.5)	12.5	(51.2)
	<b>46.6</b>	<b>0.5</b>	<b>8.8</b>	<b>(72.5)</b>	<b>12.5</b>	<b>(51.2)</b>
<b>At 31 March 2019</b>						
Cash flow hedge of interest rate risk	84.6	3.4	(7.5)	(81.5)	15.1	(73.9)
	84.6	3.4	(7.5)	(81.5)	15.1	(73.9)



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 26 Capital commitments

The Group has a substantial long-term investment programme within Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2020.

	Group and Company	
	2020 £m	2019 £m
Property, plant and equipment	48.5	67.3
Intangible assets	22.5	26.6
	71.0	93.9

### 27 Lease arrangements

As set out in note 1, the Group has adopted IFRS 16 'Leases' with effect from 1 April 2019. The impact of adopting this standard on the Group's financial statements is set out below.

	Total leases £m
<b>Operating lease commitments disclosed at 31 March 2019</b>	
Within one year	4.2
Between one and five years	15.1
After five years	27.8
	47.1
Additional leases recognised on transition	0.2
Undiscounted lease liability at 1 April 2019	47.3
Effect of discounting using incremental borrowing rate	(13.9)
Leases previously recognised as finance leases	21.4
<b>Lease liability recognised at 1 April 2019</b>	<b>54.8</b>
New leases recognised	7.8
Leases terminated	(1.8)
Interest expense	0.8
Undiscounted cash payments	(12.2)
<b>Lease liability recognised at 31 March 2020</b>	<b>49.4</b>
Of which are:	
Non-current	38.7
Current	10.7
<b>Total</b>	<b>49.4</b>

The Group leases certain items of plant and equipment, as well as vehicles, under short-term leases.

At 31 March 2020, the Group had £0.3 million outstanding commitments in respect of future minimum lease payments under non-cancellable short-term leases.

Leases recognised as debt under IFRS 16 as at 31 March 2020 can be analysed as follows:

	Interest £m	IFRS debt £m	Permitted indebtedness £m
Vehicles operating leases	-	3.8	-
Property operating leases	0.8	30.8	30.8
Existing finance leases	(0.1)	14.7	-

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year.





## 28 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 2020 amounted to £8,724.3 million (2019: £7,921.6 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are also guaranteed unconditionally and irrevocably by the Company. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited had no outstanding indebtedness at 31 March 2020 (2019: £nil).

During the year to 31 March 2020, there has been no change to the Group's position from that disclosed in the 31 March 2019 consolidated financial statements. As stated in 2019, the Group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. In April 2020, circa 100 property search companies (an amalgamation of two of the four groups) served proceedings on all of the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services Limited for an unspecified amount of compensation. This is an industry-wide issue and at this stage the Directors consider, based on current legal advice, that the claim is unlikely to succeed and, in any event, would 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.

## 29 Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The Company's immediate parent undertaking is 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 owned and ultimately controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, First Sentier Investors ('First Sentier', previously known as Colonial First State Global Asset Management), IFM Investors, Camulodunum Investments Ltd (CIL), and Infinity Investments S.A. ('Infinity').

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 at the registered address: Anglian Water Services Limited, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

## 30 Impact of changes to accounting policies

As set out in note 1, the Group has adopted IFRS 16 'Leases' with effect from 1 April 2019. The impact of adopting this standard on the Group's financial statements is set out below.

In accordance with IFRS 16 paragraph IFRS 16.C5(b), the Group has chosen to apply the modified retrospective approach, where the cumulative effect of adoption is recognised at the date of initial application, as well as certain practical expedients. The impact on the opening balance sheet at 1 April 2019 is set out in the table below.

The impact of IFRS 16 on the results for the period compared with the previous IAS 17 accounting was to reduce operating costs by £3.7 million and increase depreciation and finance costs by £4.7 million and £0.8 million respectively. In addition to this, £1.5 million of lease costs would have previously been capitalised in the period.

### Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives. In addition, the Group has applied IFRS 16.C8(c) in relation to impairment of right-of-use assets on transition at the date of initial application.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 April 2019 is 2.5 per cent.

### Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics
- election not to apply the measurement of the standard to leases where term ends within 12 months and from the date of initial application
- hindsight has been used in determining the lease term.



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 30 Impact of changes to accounting policies (continued)

#### Reconciliation of operating lease commitments to opening lease liability

	£m
Operating lease commitments disclosed at 31 March 2019	47.1
Additional leases recognised on transition	0.2
Effect of discounting	(13.9)
IFRS 16 position at 1 April 2019	33.4

#### Restatement of the balance sheet at 1 April 2019

	Balance at 31 March 2019 £m	Impact of IFRS 16 £m	Adjusted balance at 1 April 2019 £m
<b>Non-current assets</b>			
Intangible assets	197.3	-	197.3
Property, plant and equipment	9,770.2	33.1	9,803.2
Derivative financial instruments	195.6	-	195.6
Retirement benefit surpluses	49.3	-	49.3
	10,212.4	33.1	10,245.4
<b>Current assets</b>			
Inventories	11.6	-	11.6
Trade and other receivables <sup>1</sup>	485.7	(0.8)	485.0
Investments	297.0	-	297.0
Cash and cash equivalents	257.3	-	257.3
Derivative financial instruments	20.3	-	20.3
	1,071.9	(0.8)	1,071.2
<b>Total assets</b>	<b>11,284.3</b>	<b>32.3</b>	<b>11,316.6</b>
<b>Current liabilities</b>			
Trade and other payables <sup>2</sup>	(492.0)	0.5	(491.5)
Current tax liabilities	(253.0)	-	(253.0)
Borrowings	(315.0)	(3.6)	(348.4)
Derivative financial instruments	(16.0)	-	(16.0)
Provisions <sup>3</sup>	(4.2)	0.6	(3.6)
	(1,080.2)	(2.5)	(1,112.5)
<b>Net current liabilities</b>	<b>(8.3)</b>	<b>(33.0)</b>	<b>(41.3)</b>
<b>Non-current liabilities</b>			
Borrowings	(6,619.6)	(29.8)	(6,619.6)
Derivative financial instruments	(980.4)	-	(980.4)
Deferred tax liabilities	(936.8)	-	(936.8)
Retirement benefit obligations	(45.8)	-	(45.8)
Provisions	(8.0)	-	(8.0)
	(8,590.6)	(29.8)	(8,590.6)
<b>Total liabilities</b>	<b>(9,670.8)</b>	<b>(32.3)</b>	<b>(9,703.1)</b>



	Balance at 31 March 2019	Impact of IFRS 16 £m	Adjusted balance at 1 April 2019 £m
<b>Net assets</b>	<b>1,613.5</b>	-	1,613.5
<b>Capital and reserves</b>			
Share capital	32.0	-	32.0
Retained earnings	1,655.4	-	1,655.4
Hedging reserve	(75.9)	-	(75.9)
Cost of hedging reserve	2.0	-	2.0
<b>Total equity</b>	<b>1,613.5</b>	-	1,613.5

<sup>1</sup> Adjustment in respect of pre-paid leases.

<sup>2</sup> Adjustment in respect of existing lease incentives.

<sup>3</sup> Derecognition of onerous lease.

### 31 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.

In August 2019, the Commonwealth Bank of Australia ceased to be the parent company of First Sentier, one of the consortium of investors owning Anglian Water Group Limited, as the business was acquired by Mitsubishi UFJ Financial Group, Inc. Prior to the transfer of the business, the Commonwealth Bank of Australia agreed to the extension of its participation in the £550 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £98,750.

During the year to 31 March 2020, there were no other transactions, other than £67.8 million of dividends (2019: none other than £68.0 million of dividends) with the shareholders.

#### (b) Remuneration of key management personnel

Key management personnel comprise all the Directors and 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 116–134](#).

	2020 £m	2019 £m
Short-term employee benefits	4.6	4.9
Post-employment benefits	0.4	0.5
Other long-term benefits	0.6	2.2
	<b>5.6</b>	<b>7.6</b>

At the balance sheet date, key management also held various bonds issued by the Group totalling £1.8 million (2019: £2.2 million).



## Notes to the Group financial statements continued

for the year ended 31 March 2020

### 31 Related party transactions (continued)

#### (c) Parent company

The Company's related party transactions are summarised below:

	2020 £m	2019 £m
Sale of goods/services to:		
Fellow subsidiaries of Anglian Water Group Limited	0.3	0.6
Purchase of goods/services from:		
Fellow subsidiaries of Anglian Water Group Limited	7.0	7.3
Management fees paid to:		
Subsidiaries	0.3	0.3
Interest paid to:		
Subsidiaries	343.0	351.5
Dividends paid to:		
Parent company	67.8	68.0
Trade and other receivables due from:		
Fellow subsidiaries of Anglian Water Group Limited	0.7	0.3
Trade and other payables due to:		
Subsidiaries	48.6	46.6
Fellow subsidiaries of Anglian Water Group Limited	1.3	0.8
Loans and other borrowings due to:		
Subsidiaries	7,652.0	6,931.4

### 32 Events after the balance sheet date

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 auditor's report to the members of Anglian Water Services Limited

## Report on the audit of the financial statements

### 1. Opinion

#### In our opinion:

- the financial statements of Anglian Water Services Limited (the 'Company') and its subsidiary (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's loss 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 Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group and Company cash flow statements; and
- the related notes 1 to 32.

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 Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### 2. 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. While the Company is not a public interest entity subject to European Regulation 537/2014, the

Directors have decided that the Company should follow the same requirements as if that Regulation applied to the Company. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Bad debt provisioning;</li> <li>• Revenue recognition – estimating unbilled household revenue;</li> <li>• Derivative accounting;</li> <li>• Valuation of defined benefit pension schemes; and</li> <li>• Going concern.</li> </ul> <p>The classification of costs between operating and capital expenditure is no longer a key audit matter in the current year due to consistency of judgements used in the classification of costs in the current year as compared to prior year.</p> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>⚠ Newly identified</li> <li>⬆ Increased level of risk</li> <li>⬇ Similar level of risk</li> <li>⬇ Decreased level of risk</li> </ul>
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**Materiality** Group materiality was set at £18.6m (2019: £13.6m). Similar to the prior year, we considered 3% of EBITDA (£23.0m) as a benchmark for determining materiality, however we capped materiality at a lower amount to reduce the year on year increase in the materiality level applied.

**Scoping** The Group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing Plc (the Group's financing entity). We performed full-scope audit procedures, which accounted for 100% of the Group's total net assets and 100% of the Group's EBITDA.

**Significant changes in our approach** The timing of the Group's year end, in relation to the Covid-19 pandemic related UK lock-down, means the impact of the pandemic on the Group was not significant during the financial year. Covid-19 has, however, increased the level of risk and volatility of certain markets to which the Group is exposed as at the year-end, including includes property and alternative investments held within the Group's pension scheme.

Covid-19, together with the Group's referral to the Competition and Markets Authority of Ofwat's final determination, has also increased the focus on the Group's ability to finance its operations.

As a result, two new key audit matters were identified for the year ended 31 March 2020:

- the valuation of the Group's and the Company's assets held to fund retirement benefit obligations – specifically with reference to the property and alternative assets; and
- the ability of the Group and the Company to continue as a going concern.





## Independent auditor's report continued

### 4. Conclusions relating to going concern, principal risks and viability statement

#### 4.1 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 considered as part of our risk assessment the nature of the Group, its business model and related risks including, where relevant, the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement that would be required by Listing Rule 9.8.6R(3) if the Company had a premium listing, and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 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.

#### 4.2 Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 72–91 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on pages 136–137 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 113 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) if the Company had a premium listing is materially inconsistent with our knowledge obtained in the audit.

**Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### 5. 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.

#### 5.1 Bad debt provisioning

##### Key audit matter description



At 31 March 2020, the bad debt provision was £212m (2019: £193m). The bad debt charge of £40.7m represented 2.5% of turnover (2019: £29.2m and 2.2% of turnover).

A proportion of the Company's customers do not or cannot pay their water bills, which results in the need for provision to be made for non-payment of the customer balance. The bad debt provision is material, a key area of estimation within the Company and an area of scrutiny by Ofwat.

Provisions are made against the Company's trade receivables based on historical cash collection rates for debt over a 10 year period, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of Covid-19.

The key audit matter, which is also a potential fraud risk, is focused on the estimation of the household bad debt provision, including whether the experience of cash collection in historical periods provides an appropriate expectation of future credit losses under IFRS 9 'Financial Instruments'.

In response to an expected deterioration in future cash collection due to the economic disruption caused by Covid-19, the bad debt provision at 31 March 2020 includes an additional £12m. Management determined this additional provision considering a range of external data points and actual cash collection rates throughout April and May 2020. As a result of this, the bad debt provision at 31 March 2020 includes a greater level of estimation than the prior year.

The Audit Committee have also considered this as a significant issue, and it is discussed in the Audit Committee Report on page 110. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(o).

**How the scope of our audit responded to the key audit matter**

In response to this matter we have performed the following procedures:

- obtained an understanding of, and tested, relevant controls within the bad debt provision estimation process;
- verified the accuracy of information within the aged debt report to assess whether the customer debt is accurately categorised based on information contained within the Company's billing system;
- verified that the provision, including the additional provision due to Covid-19, has been calculated in line with the policy of the Company through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 'Financial Instruments';
- reviewed management's bad debt policy, specifically challenging whether the recoverability assumptions are reflective of current cash collection rates;
- assessed whether any discrepancies exist between the provision recognised and that supported by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments;
- verified the accuracy and completeness of the cash collection trends used in the provision rate calculation by performing regression analysis;
- verified the assumptions underpinning the market data used by management in assessing the impact of Covid-19 by comparing these with the wider range of external market forecasts;
- considered whether post year-end cash collection trends throughout April and May 2020 supported management's best estimate of additional provision due to Covid-19; and
- engaged our IT analytics team to perform a recalculation on the debtor ageing, including total debits and total credits not yet written off.

**Key observations**

We are satisfied that the assumptions applied in assessing the impairment of trade receivables, including the impact of Covid-19, are reasonable and that the bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

**5.2 Revenue recognition – estimating unbilled household revenue****Key audit matter description**

For customers with water meters, the revenue recognised depends on the volume of water supplied, including an estimate of the sales value of water supplied between the date of the last meter reading and the year end (the 'unbilled income accrual'). The household element of the unbilled income accrual is £304m (2019: £272m). The total unbilled income accrual is £358m (2019: £307m).

The usage estimates are based on historical data and assumptions around consumption patterns. Incorrect estimates of water consumption could lead to overstatement of revenue in the period. Due to the level of management judgement, we identified the estimation of unbilled household revenue as a key audit matter and area of potential fraud.

The Audit Committee also considered this as a significant issue, as discussed in the Audit Committee Report on page 110. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(e).

**How the scope of our audit responded to the key audit matter**

For the estimation of unbilled household revenue, we have performed the following procedures:

- obtained an understanding of, and tested, relevant controls within the unbilled household revenue process, including review controls around the estimation techniques used with regard to consumption and other key data inputs into the model;
- compared bills raised during 2019/20 relating to the 2018/19 accrual to determine the accuracy of management's forecasting; and
- verified the accuracy of the reports utilised by management in determining the required accrual.

**Key observations**

We are satisfied that management's estimates in relation to the recognition of unbilled household revenue are appropriate.



## Independent auditor's report continued

### 5.3 Derivative accounting

#### Key audit matter description



The Group and the Company has a net derivative liability of £742.8m (2019: £740.9m), disclosed in note 20 to the financial statements, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices.

IFRS 9 '*Financial Instruments*' requires derivatives to be accounted for at fair value with movements recognised as profit or loss, unless designated as hedge relationship. Where possible, management have elected to apply hedge accounting.

We identified a key audit matter relating to the valuation of derivatives and the related credit risk adjustments, which can be both complex and judgemental. We have focused in particular on the risk of error arising on the valuation of the index-linked swaps due to their complexity.

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(r).

#### How the scope of our audit responded to the key audit matter



In relation to fair valuation of derivatives, we, with the involvement of our financial instruments specialists, have:

- obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives;
- performed valuation testing, through independent recalculation, of a sample of complex derivative financial instruments, including an assessment of the credit risk adjustment;
- reviewed hedge documentation and tested hedge effectiveness against the criteria documented;
- reviewed the accounting for derivative positions to assess whether they are in accordance with IFRS 9; and
- audited the disclosures required by IFRS 7 '*Financial Instruments: Disclosures*' and IFRS 13 '*Fair Value Measurement*' to assess whether they are compliant with the standard and observed industry practice.

#### Key observations



We are satisfied that derivative financial instruments have been accounted for appropriately and that the valuations adopted are reasonable.

### 5.4 Valuation of defined benefit pension schemes

#### Key audit matter description



At 31 March 2020, the Company have total pension scheme assets of £1,498.8m (2019: £1,563.2m) and total pension scheme liabilities of £1,368.8m (2019: 1,559.7m), disclosed in note 23 to the financial statements.

Valuation of defined benefit pension scheme liabilities is an area requiring significant assumptions including an appropriate discount rate, inflation rate, pension increases, and the longevity of members.

At 31 March 2020, key judgements have also been required in relation to the valuation of some of the scheme's unquoted assets, particularly property funds and alternative investments, as a result of the continued market disruption due to Covid-19 outbreak.

Consistent with guidance provided by the Royal Institute of Chartered Surveyors, the external valuers' reports to the investment managers, which management uses to estimate the fair value of property assets in the Group's balance sheet, have reported a 'material valuation uncertainty' in their valuation reports for property assets. This uncertainty clause is on the basis of Covid-19 bringing an increased level of risk in and volatility of certain markets as at 31 March 2020.

The key audit matter is therefore focussed on the following:

- valuation of the unquoted pension scheme assets, specifically with reference to property funds and alternative investments; and
- valuation of the pension scheme liabilities, and the appropriateness of the actuarial assumptions that are used to calculate these liabilities.

The Audit Committee also considered valuation of the pension scheme liabilities as a significant issue, as discussed in the Audit Committee Report on page 110. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(t).

**How the scope of our audit responded to the key audit matter**

In the valuation of the pension scheme liabilities, we, with the involvement of our pension liability specialists, have:

- challenged the basis of management's assumptions used in the calculation of the pension scheme liability;
- evaluated the competence, capabilities and objectivity of the scheme actuary;
- reviewed the information provided by management to the actuary for accuracy; and
- verified that the financial statements accurately reflect the information provided by the actuary.

In the valuation of our pension scheme assets, we, with the involvement of our pension asset specialists, have:

- independently revalued a sample of the pension assets, including verifying external valuations to market indices and third party data, where appropriate;
- verified the pension scheme assets to third party custodian and investment manager confirmations;
- involved our real estate specialists to review the property fund valuations; and
- verified that the financial statements accurately reflect the information provided by the investment fund managers.

**Key observations**

We are satisfied that the valuations of the property and other unquoted assets within the retirement benefit pension asset funds are reasonable as at 31 March 2020. We are also satisfied that the assumptions used by management in the valuation of the retirement benefit obligations are reasonable, and that the pension scheme liabilities are appropriately stated.

**5.5 Going concern****Key audit matter description**

In approving the financial statements, the Directors are required to make an assessment of the Group's and the Company's ability to continue as a going concern for a period of at least 12 months from approval of the financial statements.

There is a greater level of judgement in the going concern assessment of the Group and the Company in the current year. As disclosed on [pages 88–91](#), the PR19 final determination, which is currently referred to the Competition and Markets Authority, has introduced a number of new risks to the business which are being mitigated through the implementation of a cost reduction programme. Moreover, the economic disruption likely to occur as a result of the Covid-19 pandemic, particularly in relation to non-household demand and the collectability of debtors, is expected to adversely affect the cash generation of the business.

In establishing the assumptions adopted as part of the going concern assessment, including the downside sensitivities modelled, management have considered external data sources as well as their own internal analysis, particularly when estimating the impact of Covid-19.

[Page 147](#) of the financial statements notes the considerations of the Directors in making their going concern assessment, including:

- the strong liquidity position of the Group at 31 March 2020, and forecast throughout the going concern period;
- the cost reduction programme being undertaken in response to the PR19 final determination;
- the assumptions adopted in respect of estimating the potential impact of Covid-19 on the Group and the Company, as well as consideration of a number of different potential downside scenarios; and
- the risk of either a Trigger or Default covenant event, as defined in the terms of the Company's lending arrangements, occurring during the going concern period.

**How the scope of our audit responded to the key audit matter**

In response to this matter we have performed the following procedures:

- reviewed and challenged the appropriateness of the assumptions taken by management in establishing their base case, including comparison of the assumptions taken in respect of the impact of Covid-19 to independent data sources and the reasonableness of assumptions made in respect of cost savings which will be achieved during the going concern period;
- understood the process undertaken by management in modelling the impact of their going concern assumptions and agreed relevant data points within the model to supporting documentation;
- considered the liquidity of the Group and the Company, including in the scenario where future financing is restricted;
- reviewed the terms of the external financing of the Group and the Company to establish the covenant requirements attached to this financing. We have also reviewed and recalculated the covenant calculations prepared by management and considered the headroom available against these covenants;
- considered the impact if either Trigger or Default covenant breaches occurred;
- considered the appropriateness, and results, of the sensitivity testing completed by management, including comparison to external data sources; and
- assessed the appropriateness of financial statement disclosures considering the results of procedures noted above.

**Key observations**

We are satisfied with the appropriateness of the Directors' assessment of the Group's and the Company's ability to continue as a going concern for at least 12 months from approval of the financial statements.

We note that a Trigger covenant event is forecast to occur under certain downside scenarios modelled by management but, as disclosed on [page 147](#), that such an event is not considered to constitute a material uncertainty related to the going concern conclusion.



## Independent auditor's report continued

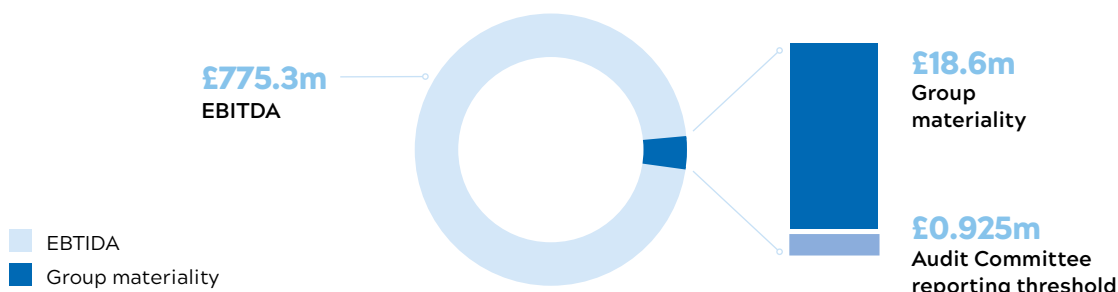
### 6. Our application of materiality

#### 6.1. 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
<b>Materiality</b>	£18.6m (2019: £13.6m)	£18.5m (2019: £13.5m)
<b>Basis for determining materiality</b>	Group materiality was set at £18.6m (2019: £13.6m). Similar to the prior year, we considered 3% of EBITDA (£23.0m) as a benchmark for determining materiality, however we capped materiality at a lower amount to reduce the year on year increase in the materiality level applied.	
<b>Rationale for the benchmark applied</b>	We have used EBITDA as the benchmark for materiality as this is deemed a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements. The substantial majority of the Group's operations are carried out by the Company.	



#### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our consideration of the Group's control environment, including our control reliance approach on several business cycles;
- no significant deficiencies identified in the controls environment within which the Group operates;
- no significant deficiencies noted in the functioning of the key business operations due to Covid-19;
- the limited number of changes to the business and the limited turnover of management and key accounting personnel during the year; and
- the history of a low number of corrected and uncorrected misstatements identified in previous periods.

#### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £925,000 (2019: £675,000), 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.

### 7. An overview of the scope of our audit

#### 7.1. Identification and scoping of components

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% (2019: 100%) of the Group's total assets and EBITDA.

All procedures were carried out directly by the Group audit team.

#### 7.2. Our consideration of the control environment

Our work in relation to the Group's internal control environment involved testing of the Group's key reporting system. We, with the involvement of our IT specialists, obtained an understanding of, and tested, relevant General Information Technology Controls (GITCs) within the Group's key reporting system, including the access controls, change management controls and controls around segregation of duties.

We also tested the relevant controls within the household revenue, capital expenditure and operating expenses business processes, which are supported by the Group's key reporting system. We performed a walkthrough and inquiry of management to test the design and implementation of the relevant controls within each of these business processes. We tested, on a sample basis, the operating effectiveness of these controls by verifying that the controls have been performed as designed.

We were able to adopt a controls reliance strategy for each of these business processes, including automated controls in these business processes and no significant control deficiencies were identified as a result of our work.





## 8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the Anglian Water Services Corporate Governance Code 2019 (the 'AWS Code')** – the parts of the Directors' statement that would be required if the Company had a premium listing relating to the Company's compliance with the equivalent provisions to those in the UK Corporate Governance Code specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the AWS Code.

**We have nothing to report in respect of these matters.**

## 9. 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 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 Company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



## Independent auditor's report continued

### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, financial instruments valuations, pensions and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: bad debt provisioning, estimating unbilled household revenue and classification of costs between capital and operating. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, tax legislation and pension legislation. In addition, compliance with terms of the Group's operating licence and the regulatory solvency requirements are fundamental to the Group's ability to continue as a going concern.

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified debt provision and estimating unbilled household customer revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofwat; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



## Report on other legal and regulatory requirements

### 12. 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 the 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.

### 13. Opinion on other matters prescribed by our engagement letter

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

### 14. Matters on which we are required to report by exception

#### 14.1. 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 14.2. 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.

### 15. Other matters

#### 15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 March 2017 to 31 March 2020.

#### 15.2. 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).

### 16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**James Leigh (Senior statutory auditor)**  
for and on behalf of Deloitte LLP  
Statutory Auditor

London, United Kingdom  
15 June 2020



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