Anglian Water Group Limited
Annual report and consolidated financial statements

for the year ended 31 March 2020

(Registered under the Companies (Jersey) Law 1991)

Directors' report

for the year ended 31 March 2020

The Directors present their report and the audited consolidated financial statements of Anglian Water Group Limited (the 'company') for the year ended 31 March 2020.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply, treatment and distribution; sewage collection and treatment; and retail services to water and water recycling customers. No changes are envisaged to the group's principal activities. The group's principal business is Anglian Water Services Limited ('Anglian Water'). The information that fulfils the requirement of the Strategic Report, including the company's financial risk management objectives, is set out on pages 7 to 82.

Group results and returns to shareholders

The income statement on page 83 shows the group's results for the year. Dividends of £nil (2019: £nil) were paid during the year.

Directors

The Directors who held office during the year and to the date of this report, unless otherwise stated, are set out below.

John Hirst	Non-Executive Chairman	appointed 1 April 2020
Stephen Billingham	Non-Executive Chairman	resigned 31 March 2020
Peter Simpson	Chief Executive Officer	
Steve Buck	Chief Financial Officer	appointed 1 August 2019
Scott Longhurst	Managing Director, Finance & Non-Regulated Business	resigned 31 July 2019

Non-Executive Directors:

Projesh Banerjea	INF	(alternate director)	
John Barry	CIL		
James Bryce	CPP		
Mamoun Jamai	INF		
Manoj Mehta	IFM		
Niall Mills	FSI		
Robert Napier	CPP		
Alexandros Nassuphis	FSI	(alternate director)	
Batiste Ogier	CPP	(alternate director)	appointed 26 July 2019
Duncan Symonds	IFM	(alternate director)	

CPP	Canada Pension Plan Investment Board
FSI	First Sentier Investors
INF	Infinity Investments S.A.
IFM	IFM Investors
CIL	Camulodunum Investments Ltd

Claire Russell and Intertrust Corporate Services (Jersey) Limited continued to serve as joint Company Secretary throughout the year.

Directors' indemnities

During the 2019/20 financial year and up until the date of the signing of the financial statements, the group has maintained directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors.

Shareholders

The investors in the company and their respective group shareholdings as at 31 March 2020 are as follows:

	Number of shares held		
	Class A no par value ordinary shares	**Class B no par value ordinary shares**	**No par value preference shares**
CPPIB (Hong Kong) Limited *	4,453,126	656,246	36,138,583,249
First Sentier Investors	2,411,500	-	17,056,537,602
Infinity Investments S.A.	2,588,500	-	18,308,458,461
Global InfraCo (HK) E. Limited **	3,065,623	-	21,683,149,948
Camulodunum Investments Ltd	2,325,005	-	16,444,758,534
	14,843,754	656,246	109,631,487,794

* an indirect subsidiary of Canada Pension Plan Investment Board
** an indirect subsidiary of IFM Investors

As at the date of this report, the investors in the company also held unsecured loan notes of £0.01 each in Osprey Holdco Limited, a wholly owned subsidiary of Anglian Water Group Limited, as follows:

	Number of loan notes held
CPPIB (Hong Kong) Limited *	15,229,224,556
First Sentier Investors	7,187,825,807
Blue Atlas ZA 2014 Limited Partnership **	7,715,399,999
Global InfraCo (HK) D. Limited***	9,137,534,734
Camulodunum Investments Ltd	6,930,014,904
	46,200,000,000

* an indirect subsidiary of Canada Pension Plan Investment Board
** an affiliate of Infinity Investments S.A.
** an indirect subsidiary of IFM Investors

Governance Code

In January 2019, Ofwat published revised Board, Leadership, Transparency and Governance Principles (BLTG Principles). These revised BLTG Principles removed the requirement for a Holding Company Governance Code, which had been in place since 2014. In March 2019, the Board of Anglian Water Services Limited approved the Anglian Water Services Corporate Governance Code 2019, which incorporates Ofwat's revised BLTG Principles and most of the provisions of the 2018 UK Corporate Governance Code. The 2019 Code came into effect on 1 April 2019 and is available on the Anglian Water website (www.anglianwater.co.uk). Information on Anglian Water Services Limited's compliance against the 2019 Code can be found in its Annual Integrated Report.

Compliance with the 'Walker Guidelines'

For continued transparency, Anglian Water Group Limited has elected to comply with the Guidelines for Enhanced Disclosure by Portfolio Companies and Private Equity Firms published by the Private Equity Reporting Group (the 'Walker Guidelines') (last updated in December 2017), on a voluntary basis.

Political donations and expenditure

No political donations or expenditure were made during the year (2019: £nil).

Research and development

The group has a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, sewers and water supply networks, and other water and water recycling related matters.

Financial instruments disclosures

Details are included on page 60 of the Strategic Report and in note 22 of the financial statements.

Employees

Information on the group's policy on employing people with disabilities and about how employees are kept informed and consulted can be found on pages 12 to 15 of the Strategic Report. Information relating to how Directors across the group have engaged with employees and the effect of that regard can be found in the section 172 statement on pages 16 to 24.

Stakeholder engagement

Details of how Directors across the group 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 16 to 24.

Emissions

Information relating to carbon emissions can be found on page 38.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 34 of the financial statements.

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Annual Report and consolidated financial statements in accordance with applicable law and regulations.

The Companies (Jersey) Law 1991 (the ‘Jersey Companies Law’) requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 group and the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the group and the company 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 group’s website. Legislation under Jersey Companies Law 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 Directors section on page 2 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and the company; and
- the Directors’ Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company’s performance, business model and strategy.

Statement of Directors' disclosure of information to Auditor

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

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

Annual General Meeting and appointment of Auditor

Pursuant to Article 87(4) of the Companies (Jersey) Law 1991, Anglian Water Group Limited has dispensed with the obligation to hold an Annual General Meeting and the company has dispensed with the requirement to lay the annual report and financial statements before the company in a general meeting.

The Auditor, Deloitte LLP have indicated their willingness to continue in office and are deemed to be reappointed.

Going concern

The Directors believe, after due and careful enquiry, that the group 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 91.

Claire Russell
Company Secretary
10 July 2020

Registered Office: 44 Esplanade, St Helier, Jersey JE4 9WG
Registered in Jersey No. 94523

Group overview

Anglian Water Group Limited's principal business is Anglian Water Services Limited ('Anglian Water'), the group's regulated water and sewerage company, which supplies water and water recycling services to more than six million customers in the east of England and Hartlepool.

The group also includes Anglian Venture Holdings, which comprises Alpheus Environmental Limited, which operates industrial and commercial wastewater treatment works in the UK, Celtic Anglian Water Limited, which operates water and wastewater treatment works in the Republic of Ireland, Tide Services Limited, which operates property conveyancing, residential insurances and the provision of web hosted information services for utilities on behalf of other group companies, Wave Ltd, which is a 50:50 joint venture with Northumbrian Water Group Limited to provide water services to non-household customers in the UK, and OHL Property Holdings Limited, which oversees the construction of a new water recycling centre.

Organising for Covid-19

The risk of pandemic flu 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 (SPG) 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; and analysis of supply chain resilience, whilst 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 volunteer group from across the business, who are trained to respond in the event of any operational incident. 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 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.

Competition and Markets Authority (CMA)
The Business Plan Anglian Water 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. 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 – 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 appeal process is known. It is underway 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 funding model for the long term and consider the appropriate balance between investment and customer bills.

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 all around the world have played their part in tackling the coronavirus outbreak.

Given Anglian Water's 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 driving industry-wide actions around the social and environmental purpose of a water company, 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 Anglian Water Services Limited 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.

Group financial performance

	2020	2019 [2]
	£m	£m
Revenue	**1,455.7**	1,390.6
Operating profit	**389.6**	377.6
Adjusted profit [1]	**29.6**	14.4
Loss before tax	**(0.8)**	(84.2)
Cash generated from operations	**668.8**	688.0

(1) In order to show performance based on management's view of an underlying basis, the fair value losses on derivative financial instruments of £30.4 million (2019: £98.4 million) have been excluded from the adjusted profit, because there are volatile non-cash annual movements which distort the actual underlying economic performance.

(2) On 1 April 2019, IFRS 16 'Leases' came into effect. The principal consequences of this new standard are that a lease liability reflecting future lease payments and a 'right-of-use' asset are recognised on the balance sheet, and an interest expense on the lease liability and depreciation on the 'right-of-use' asset are recorded in the income statement. It is noted that IFRS 16 was not applied retrospectively, as permitted by the standard, and therefore the comparatives are not presented on an IFRS 16 basis.

Revenue for the year was £1,455.7 million, an increase of £65.1 million from £1,390.6 million in 2019. Anglian Water's revenue, excluding grants and contributions increased by £50.3 million (3.9 per cent), reflecting 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.

Group operating profit was £12.0 million higher than the prior year at £389.6 million (2019: £377.6 million), primarily due to an increase of £10.1 million in Anglian Water's operating profit where the increase in revenue mentioned above more than offset higher operating costs and depreciation. Further details of Anglian Water's operating cost movements can be found on page 31.

Net finance costs for the period, excluding fair value losses on derivative financial instruments, decreased by £7.7 million to £353.9 million (2019: £361.6 million). 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 reflecting a lower level of capital projects in progress.

Resultant adjusted profit before tax was £29.6 million (2019: £14.4 million). After fair value losses on derivative financial instruments of £30.4 million (2019: £98.4 million) and the 2019 exceptional loss on the disposal of Vector Morrison (Ghana) Ltd of £0.2 million, the statutory loss before tax was £0.8 million (2019: £84.2 million).

Taxation

Our underlying effective tax rate is higher than the rate of corporation tax due to restriction on interest deductibility as a result of new legislation introduced in April 2017. Our low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment, the interest we pay to fund that investment and the availability of surplus ACT (corporation tax paid in advance). We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

The tax charge for the period of £121.2 million consists of a current tax charge of £0.7 million and a deferred tax charge of £120.5 million.

The current tax charge has reduced from £47.2 million in 2019 as this included payments to other group companies for losses surrendered from those companies and also reflected a charge on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the surplus ACT asset held on the balance sheet.

The deferred tax charge has increased by £178.3 million from a credit of £57.8 million in 2019 to a charge of £120.5 million this 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 March 2019 are 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.

In addition to the £121.2 million tax charge to the income statement, there is a charge of £21.0 million (2019: £1.0 million) in the statement of other comprehensive income in relation to tax on actuarial gains in the pension schemes and fair value losses on cash flow hedges.

Cash flow

Cash generated from operations by the group was £668.8 million (2019: £688.0 million), a decrease of £19.2 million on the prior year. Anglian Water's operating cash flow was £14.7 million lower than the prior period at £686.0 million (2019: £700.7 million), reflecting a reduction in cash collection from retailers as a result of the agreement to defer payment of 50 per cent of the March invoice.

Net debt

Net debt increased by £199.0 million to £8,378.2 million in the year to 31 March 2020. During the period new debt of £815.9 million was raised and £27.7 million of interest was deferred in relation to the debt within Osprey Holdco. Debt repaid in the period amounted to £220.3 million.

Pension funding

At 31 March 2020 the net pension surplus for the group was £115.8 million (2019: deficit of £20.9 million). The increase in the deficit reflects the volatile market conditions in March 2020 and is primarily a result of the impact of the reduction in RPI on the scheme's liabilities. Asset performance in the year was marginally below expectations, with a relatively low exposure to equities and a high proportion of hedging limiting the impact of the market movements. During the year a deficit reduction payment of £15.1 million was made, compared with £12.5 million in the prior year.

The increase is partially offset by the impact of the minimum funding requirement, £12.6 million (2019: £15.6 million), which (under IFRIC 14) restricts the value of the Morrison Pension & Life Assurance Plan (MPLAP) scheme to ensure the liability is at least the value of committed payments, £24.6 million.

Dividends

Dividends of £nil (2019: £nil) were paid in the year, reflecting their decision to reduce gearing within Anglian Water Services Limited 'Anglian Water'.

On 15 March 2018, Anglian Water announced its plans to reduce dividends to its ultimate shareholders and borrowings through to 2025, resulting in a significant reduction in the company's level of debt and gearing, while continuing to meet its investment commitments.

The company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts 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 whilst ensuring the liquidity requirements of the business are met fully.

As part of its PR19 process Ofwat has introduced a mechanism which 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.

Segmental reporting

The key performance indicators of the group's individual businesses are discussed in the Anglian Water, Anglian Venture Holdings and Head Office and Other sections of this strategic report; a summary can be found below. The segment result comprises operating profit plus share of joint ventures operating loss. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 60.

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue					
External	1,419.6	31.1	5.0	-	**1,455.7**
Inter-segment	0.3	7.0	0.5	(7.8)	**-**
	1,419.9	**38.1**	**5.5**	**(7.8)**	**1,455.7**
Segment result					
EBITDA	767.6	4.8	(10.9)	-	**761.5**
Depreciation and amortisation	(368.5)	(2.8)	(0.6)	-	**(371.9)**
Share of joint ventures operating loss	-	(5.3)	-	-	**(5.3)**
	399.1	**(3.3)**	**(11.5)**	**-**	**384.3**
Cash flows					
Operating cash flow	686.0	4.1	(21.3)	-	**668.8**
Capital expenditure	(450.2)	-	(0.8)	-	**(451.0)**
Net debt excluding derivative financial instruments	(6,677.2)	(17.7)	(945.1)	-	**(7,640.0)**

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 Taskforce for 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 the Climate Disclosure Project (CDP). 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 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.

Governance
Our Board has effective oversight of climate-related risks and opportunities. Climate-related risks are included within Anglian Water's top-tier risk register. This is reviewed regularly in detail by the Board. Short, medium and long-term 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
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 business's response to the climate emergency and support of COP26.

Risk management
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
We report Scope 1, 2 and 3 greenhouse gas emissions in accordance with the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations. Details of our metrics and targets can be found in the Anglian Water Services Limited annual integrated report, available on our website at www.anglianwater.co.uk/about-us/our-reports.

Our people: healthier, happier, safer

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 which 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 group at the end of the three-year savings period.

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 group also recognises the importance of reflecting the diversity of its customers within its workforce. During the 2017/18 financial year the group 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 group'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 group 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 group 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 group is similarly committed to appointing the best available person to any role within the group, regardless of gender.

As at 31 March 2020, the gender balance of senior management in the group is 81 per cent male and 19 per cent female.

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.

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 Department of Work and Industry, which carried out audits on technical training and competence across the water industry in July 2019.

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 page 7.

We continue to reinforce our commitment to wellbeing through our 'Healthier, Happier, 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, Safety and Wellbeing 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 16^{th} consecutive year of recognition.

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; 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.

Our stakeholders and our approach to engagement

As the ultimate parent company of Anglian Water Services Limited, Anglian Water Group Limited have elected to disclose a section 172 statement on a voluntary basis, outlining how the directors promote the successes of the company.

As Anglian Water Services Limited accounts for the vast majority of the group, the day-to-day operation of the business is predominantly managed by employees of Anglian Water Services Limited. Due to this relationship, the group's values and reputation are highly integrated with that of Anglian Water Services Limited and therefore interested parties should read the disclosure below, which are an extract from the Anglian Water Services Limited annual integrated report. As such, all references below refer to Anglian Water Services Limited.

This section sets out both how the Board of Anglian Water Services Limited 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. Whilst 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.

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 its 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 longstanding commitment to working in the public interest, 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 and has developed a two-way Social Contract with customers.

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, this process is informed by the six capitals framework, the use of which is being extended and formalised from April 2020. 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 below and on pages 13-16) 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, below). 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 means 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.

Section 172 statement

The following pages set out why and how the Board and the Management Board engage with our principal stakeholder groups, together with examples of engagement which has taken place during the reporting year. We have also highlighted some examples of key decisions made during the year and how the priorities of stakeholders have influenced them.

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 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 which 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 which 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 whilst encouraging recognition for excellent performance.

Further engagement with customers takes place through our education and community ambassador programmes (see page 57) and through stakeholder workshops and consultations.

Key areas of engagement in 2019/20

- Business in the Community – 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 57). 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.

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 below. 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 case study below). 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.
- Diversity and Inclusion – We review progress against the Diversity and Inclusion Action Plan on an annual basis giving it an opportunity to understand progress and challenge where necessary.
- Love to Listen – We carried out our annual survey of employees (see page 13) 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 47).
- 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.

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 which 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 pages 40 and 48).

Key areas of engagement in 2019/20

- Environment Bill and Agriculture Bill – We have been amongst 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 page 42) 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 42).
- 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 pages 12 and 71).
- Soil health (see page 40).

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.

How we engage

At each meeting the Board receives an update from the Director of Regulation which 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 Drinking Water Inspectorate (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 learnt which 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 Environment Agency and the DWI. Engagement between our regulators (both the 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 MOSL Board. We have also actively engaged with Ofwat's future strategy development.

Key areas of engagement in 2019/20

- 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 Drinking Water Inspectorate 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.

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, 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 AWS 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 case study on page 8.
- 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 were 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 30). 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. We also 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.

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.

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.

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 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 their 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 page 46). The health, safety and wellbeing of members of our supply chain is a key priority and we hold 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 as well as the opportunities attached to the project as well as its link to the Price Review process.
- Covid-19 – See page 7. 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 Anglian Water Services Limited Board

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 draw down 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 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 which 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 £750 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. 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 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 in fact, 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 has 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 the Covid-19 pandemic. A virtual session will now be planned for later in the year.

Business review, key risks and viability statement

The following pages set out a Strategic Report for each of the main reporting segments of the group at 31 March 2020, and the key risks and viability statement for the group.

ANGLIAN WATER

Business overview

Anglian Water Services Limited ('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.

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.

Anglian Water 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. Anglian Water 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, Anglian Water provides retail services to household customers within its region.

What we have delivered

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 Responsible Business of the Year in 2017. In April 2020 we launched a £1 million Positive Difference Fund to support frontline coronavirus 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 retained RoSPA's Gold award for 16 years.

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How we're addressing opportunities and challenges

We have identified the main factors that affect our business now and will affect it in the future. 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 page 67 and cross-referenced where relevant below.

Two of our most significant challenges – Covid-19 and our ongoing appeal 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 page 7, while the challenge posed by the Final Determination we were awarded in December 2019 is covered in Peter Simpson's statement on page 8.

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 into 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 of 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 Government following a public consultation. See 'Long-term supply and climate change', page 71.

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) amongst 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 72 and 'Water Quality', page 77.

Population and economic growth
Our region is one of the fastest growing in the country. Growth projections exceed 200,000 new homes over the next five years – without factoring in the proposed Oxford–Cambridge Arc. By 2040, the region's population may grow by a further million people, and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services. 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 71.

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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) standard 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 68.

Affordability and customer expectations
Customer expectations of service-orientated businesses continue to rise. While we delivered the best overall level of 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 74.

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 72 and 'Long-term supply and climate change', page 71.

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.

How we take action

- Six capital decision making – we are creating a new approach that will ensure we always consider our wider impacts in our decision making, balancing financial objectives with social and environmental priorities.
- Systems thinking – we operate in a complex world with many systems, such as environmental, social, economic, operational and financial systems. Our systems and resilience thinking across all these areas continues to improve so we can make optimal decisions and investments in serving our customers.
- Enabling successful results – what makes us different and helps us to create long-term value is our unique culture, our collaborations, innovative approach, social focus and robust leadership.

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

- A smaller footprint
- A flourishing environment
- Supply meets demand
- Resilient business
- Investing for tomorrow
- Safe, clean water
- Delighted customers,
- Fair charges, fair returns
- Our people: healthier, happier, safer
- Positive impact on communities

The positive impact we make
These are our long-term goals, shaped by what matters most to our customers. For more information see our Strategic Direction Statement 2020-2045 at www.anglianwater.co.uk/about-us/our-strategies-and-plans/future-challenges/strategic-direction-statement. Our strategic direction statement ambitions are:

- Make the East of England resilient to the risks of drought and flooding.
- Enable sustainable economic and housing growth in the UK's fastest-growing region.
- Be a net zero carbon business by 2030.
- Work with others to achieve significant improvement in ecological quality across our catchments.

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.

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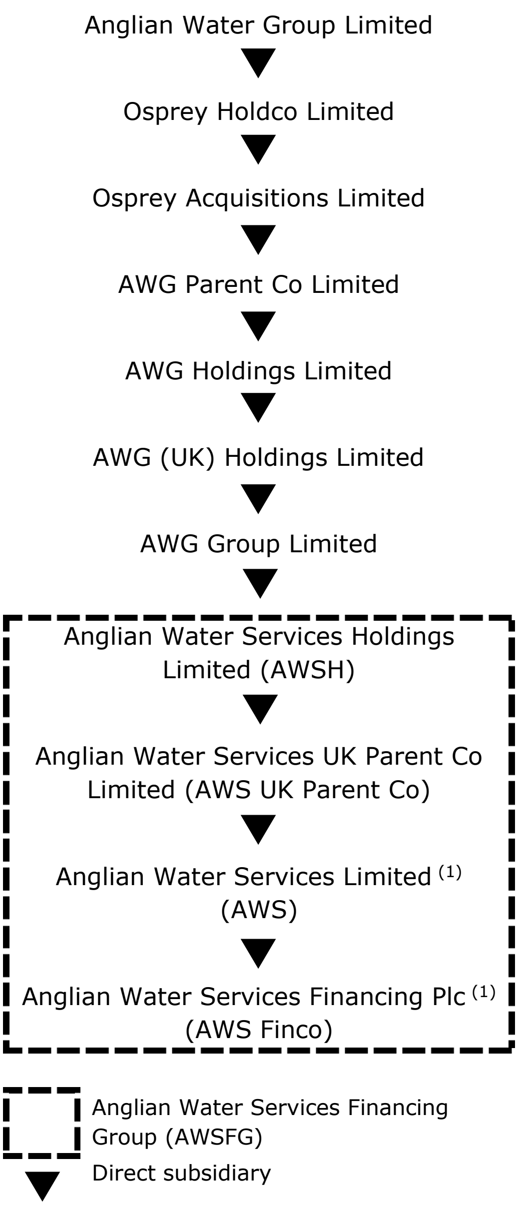
Financing our business

Our corporate structure



(1) Collectively known as the Anglian Water Services Group, for which consolidated financial statements are prepared.

When Anglian Water Group was acquired by investors in 2006, Anglian Water Group Limited became the ultimate parent company of the group (see note 31 'Ultimate parent undertaking and controlling party'). 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 (AWS UK Parent Co) is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. 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, 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 company to raise debt in the UK public bond market. Funds raised by this company underpin our investment in the region's water and water recycling services.

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Our leadership team

The Anglian Water Services Limited Board of Directors consists of:

- Two Executive Directors: Peter Simpson and Steven Buck.
- Five Independent Non-Executive Directors: John Hirst CBE (Chairman of the Board), Natalie Ceeney CBE, Dame Polly Courtice DBE LVO, Zarin Patel and Paul Whittaker.
- Three Non-Executive Directors: James Bryce, Niall Mills and Duncan Symonds.
- The 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.

Financial performance

Anglian Water operates on an arm's length basis from other companies within the group. Its activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and wastewater) and the conditions of an Instrument of Appointment (the Licence) granted to Anglian Water by the Secretary of State for the Environment on 1 September 1989.

The financial results of Anglian Water are summarised in the table below:

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

(1) 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 as 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.

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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)
Net increase in operating costs	34.8

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 but the increase in depreciation.

Financing costs and profit before tax

Adjusted finance costs (excluding fair value losses on derivative 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.

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There was a fair value loss of £30.4 million on derivative financial instruments in 2020, compared with 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 which 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.

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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 has enabled us to both reduce carbon and deliver best whole-life cost solutions. These schemes at places such as Ingoldisthorpe, Great Dunmow and Stanbridgeford will form the basis not only of our Green Bond funded investment plan, but will also serve as a blueprint for the approach we want to take in 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 Coronavirus 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 £50.0 million 1.3 per cent and £50.0 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. Dividend 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, 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 decision to reinvest £165 million into the business. Both of these decisions reduced shareholders returns in AMP6 for the benefit of the company.

Anglian Water's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all financial covenants. In assessing the dividend payment, the Directors review the business performance

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forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on 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 whilst 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 Licence.

As part of its PR19 process Ofwat has introduced a mechanism which 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. Anglian Water'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

Anglian Water'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 £600m 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 17 of the Anglian Water Services Limited 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 Anglian Water 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

Anglian Water'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 Anglian Water'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).

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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.

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 Ml/d on 2014/15 to our best ever single-year leakage performance of 182 Ml/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 almost 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 which 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 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 £13 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.

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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 that they took during heavy rainfall during June 2019, which 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, and leading to a penalty of £13.4 million. A further penalty of £10.2 million has been attracted due to the interruption to water supply in Leighton Linslade, 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 have earned the second highest amount of reward for our performance with £49.8 million. This is 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 2018/19 Service and delivery report 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.

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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 and the Service Incentive Mechanism. We have also attracted penalties for five ODIs: interruptions to supply, water infrastructure serviceability, value for money – wastewater, per household consumption and bathing water quality.

The rewards and penalties stated in the table 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** (1)
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(2)
Value for money perception – wastewater	0.1	0.0	0.1	0.0	0.0	0.3(2)
Fairness of bills perception	0.1	0.1	0.3	0.1	0.1	0.6(2)
Affordability perception	0.2	0.1	0.3	0.1	0.0	0.7(2)
Water infrastructure serviceability	0.0	(0.7)	0.0	0.0	(0.4)	(1.1)
Internal sewers 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
Total	**13.1**	**6.3**	**15.9**	**14.5**	**9.5**	**59.3**

(1) Some totals do not sum due to rounding.
(2) Performance against our customer perception measures (value for money – water, value for money – wastewater, 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.

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Delivering our outcomes – ODI performance

We measure our performance against 32 performance commitments, or Outcome Delivery Incentives (ODIs).

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.

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
- 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 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 the Carbon Disclosure Project (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)

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.

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/CO2e to 298,576 t/CO2e. 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/CO2e to 290,266 t/CO2e. 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 for Carbon Management in Infrastructure (PAS 2080). This approach continues to be an important enabler to our Green Bonds.

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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 CO2e and reducing 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 131.1GWh of renewable electricity from our fleet of Combined Heat and Power (CHP) 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 we 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 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. 2019/20 saw a 12 percentage point increase in the weight of material recycled, to 53 per cent.

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

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
We own about 7,000 hectares of land, much of it important for wildlife. This includes 49 Sites of Special Scientific Interest 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 discussing 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 (EA), local businesses and residents' groups to identify and address sources of pollution.

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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, 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.

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 draft
- Published our approach to working collaboratively with councils to plan for development: Local Plans – an Anglian Water perspective
- Beat our leakage target for the ninth year running, with leakage equivalent to previous record lows set in 2015/16 and 2017/18

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- Brought together 50 stakeholders as part of co-creation process for Drainage and Wastewater Management Plan

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 page 26 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
- 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
- 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.

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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 182 Ml/d, a reduction of 9 Ml/d from last year. Our three-year rolling average, on which Ofwat measures our performance, is now 185 Ml/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.

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

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.

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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 1,000 recruits to the Anglian Water Force, a team of volunteers from our business and our alliance partners who are ready to respond quickly in the event of an incident. 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 page 7). We collaborate with other water companies across the country through a national Water UK group, which meets to collaboratively 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 bowsers, 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 allows 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.

Impact of climate change felt in Lincolnshire
Well over double the monthly average rainfall fell in parts of Lincolnshire from 10 to 12 June. 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) permits to pump directly to the environment, highlighting the exceptional conditions.

Leighton Linslade
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.

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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 smaller roads to larger 29,000-litre tankers for larger deployments.

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

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

Performance highlights:
- Outperformed many of our targets and on track to be in an overall reward position against our ODIs for AMP6
- 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

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.

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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 across 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 the 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 up to 500km of interconnecting pipelines and associated infrastructure 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 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 underway 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.

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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.

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
- One of only two water companies to achieve new DWI Risk Assessment accreditation
- Exceeded serviceability targets at our water treatment works
- Visited more than 8,600 properties to ensure plumbing compliance and protect drinking water quality

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.

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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.

Drinking Water Inspectorate 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 which demonstrates that we have an excellent risk management framework.

Metaldehyde compliance
In 2019 we had no metaldehyde failures, a significant achievement which links directly to our work on catchment management and abstraction management. We are currently engaging with 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.

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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 which 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.

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

Our customers are instrumental in shaping what we do now and how we plan for the future. 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 52.

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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. 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 which 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 or sewers, helping to prevent surface water flooding which 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.

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

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
- 160,000 customers supported by ExtraCare team
- 83 per cent of customers receive metered bills
- £165 million of efficiencies reinvested across AMP6
- 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

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.

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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 which incentivise or impose penalties for delivering agreed environmental and social goals. Our approach to the payment of dividends to shareholders is covered on page 54.

In line with our social and environmental purpose we propose to raise the majority of our future finance as sustainable finance.

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 whilst 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 determination, Anglian Water has asked the regulator to refer its decision to the CMA (Competition and Markets Authority). 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 the Consumer Council for Water. 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 £75,000 for 2019/20 (see page 37).

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 thereby 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.

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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 page 52.

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.

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.

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

This year sees the start of our smart metering rollout, 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
Anglian Water's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on 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 ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Licence.

As part of its PR19 process Ofwat has introduced a mechanism which 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. Anglian Water's approach to de-gearing will be reviewed in the light of the CMA's decision, which is expected no later than March 2021.

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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 principles and regulatory accounting guidelines.
- We adhere to relevant tax law and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.
- We believe we are compliant with UK tax legislation and pay the right taxes at the right time.
- Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.
- Due consideration will be given to the group’s reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the group, and will form part of the overall decision-making and risk assessment process.

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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
Anglian Water's total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 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.

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.

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.

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Performance highlights:
- Enshrined commitment to our communities and our environment in our company 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 frontline coronavirus relief in our communities
- 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

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.

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 placemaking, and we have been sharing our experience with Lowestoft in Suffolk, where exciting new regeneration plans are underway. 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, to share the vision for the town, and work is underway with the 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[(1)] are more motivated to build their own career while 97 per cent of students[(1)] 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[(1)], while 93 per cent of volunteers told us it had contributed positively to their wellbeing.

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.

[(1)] of those who returned surveys

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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.

ANGLIAN VENTURE HOLDINGS

Business overview

Anglian Venture Holdings comprises the following businesses:

- Alpheus Environmental – operates industrial and commercial wastewater treatment works in the UK,
- Celtic Anglian Water – operates water and wastewater treatment works in the Republic of Ireland,
- Tide – operates property conveyancing, residential insurances and the provision of web hosted information services for utilities on behalf of other group companies;
- Wave – a 50:50 joint venture with Northumbrian Water Group Limited to provide water services to non-household customers in the UK; and
- OHL Property Holdings – a group of companies set up to oversee the construction of a new water recycling centre.

Anglian Venture Holdings has its own Board, which consists of five Directors: Steven Buck, Anthony Donnelly, Claire Russell, Peter Simpson and Wayne Young.

Financial performance

	2020	2019
	£m	£m
Revenue	**38.1**	39.7
Operating profit	**2.0**	1.4
Share of joint ventures operating profit	**(5.3)**	0.2
Segmental result	**(3.3)**	1.6
		-
(Loss)/profit before tax	**(3.3)**	1.6
Operating cash flow	**4.1**	5.3

Anglian Venture Holdings generated revenue of £38.1 million (2019: £39.7 million) and an operating profit of £2.0 million (2019: £1.4 million) as set out below.

	Revenue		**Operating profit**	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Alpheus Environmental	**7.6**	7.7	**0.7**	0.7
Celtic Anglian Water	**23.8**	25.4	**1.4**	1.3
AWG Utilities	**-**	-	**-**	(0.1)
Tide Services	**6.7**	6.6	**0.2**	0.2
OHL Property Holdings	**-**	-	**-**	-
Anglian Venture Holdings - Head Office	**-**	-	**(0.3)**	(0.7)
Inter-segment eliminations	**-**	-	**-**	-
	38.1	39.7	**2.0**	1.4
Share of joint ventures operating (loss)/profit				
Wave			**(5.3)**	0.2
Segment result			**(3.3)**	1.6

The operating loss for the period is driven by Wave JV which recorded higher gross margins as well as a reduction in operating costs following the migration to one billing system which unlocked a number of synergies for the business. This improvement was offset by an additional bad debt provision of £13.2 million as a result of Covid-19, for which the group records 50 per cent.

OTHER BUSINESS ACTIVITIES

The 'Other' business segment mainly comprises head office and other group functions, including Property.

The operating loss from other operations was £11.5 million compared to £12.8 million in the prior year, primarily a result of higher costs in Head Office relating to the referral of the Final Determination (FD) to the Competition and Markets Authority (CMA) being more than offset by the performance of the property division. The performance of the Property division was a result of increased disposals in the year and the prior year non-cash book loss on the sale of Celtic Springs.

The operating cash outflow was £3.3 million higher than the prior year at £21.3 million, primarily as a result of increased pension payments.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central Treasury team reporting to the Chief Financial Officer. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The activities of the central 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; and
- monitor counterparty credit exposures.

The group's Board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 22 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2020 the group held cash, deposits and current asset investments of £1,195.6 million (2019: £637.2 million). This increase reflects the drawdown of £600.0 million of working capital facilities to provide a short-term liquidity buffer in light of the ongoing Covid-19 uncertainty. The maturity profile of the group's borrowings is set out in note 22 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2020 Anglian Water's and Osprey Acquisitions' 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) and 83.1 per cent (2019: 83.1 per cent) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by Osprey Holdco Limited, Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central Treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2020, all group companies were compliant with all covenants.

OTHER BUSINESS ACTIVITIES

Interest rates

The group's policy, as agreed by the Board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

NON-FINANCIAL REPORTING STATEMENT

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. We integrate this information throughout this report and so the table below is designed to help you find key elements on non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Current activities and risk management
Environmental matters	Love Every Drop outcomes Anglian Water Strategic Direction Statement Anglian Water Water Resources Management Plan Draft Anglian Water Drought Plan Anglian Water Water Recycling Long Term Plan Draft Anglian Water Climate Change Adaptation Report	Enshrining our purpose, page 8 How we're addressing challenges and opportunities, page 26 Our stakeholders, page 16 Aligning our goals with the United Nations Sustainable Development Goals, page 28 Climate-related financial disclosures, page 12 Delivering our outcomes: a smaller footprint, page 38 Delivering our outcomes: flourishing environment, page 40 Principal risks, page 67
Employees	Making the right choices – code of behaviour Diversity and inclusion plan Health and safety policy Dignity at work code of conduct Relationships at work policy Gender pay gap report Whistleblowing policy	Our people: healthier, happier. safer, page 13 Our stakeholders, page 16 Risk management, page 64
Human rights	Making the right choices – code of behaviour Dignity at work code of conduct Data protection policy Information retention policy Privacy policy Modern slavery statement	Our people: healthier, happier, safer, page 13 Risk management, page 64
Social matters	Public Interest Commitment Social contract Employee volunteering guidelines – love to help Anglian Water Strategic Direction Statement	Enshrining our purpose, page 8 How we're addressing challenges and opportunities, page 26 Delivering our outcomes: supply meets demand, page 41 Delivering our outcomes: delighted customers, page 49 Delivering our outcomes: positive impact on communities, page 56
Anti-corruption and bribery	Making the right choices – code of behaviour Competition law compliance policy Anti-bribery policy Corporate hospitality policy Whistleblowing policy	Our people: healthier, happier, safer, page 13 Risk management, page 64 Long-term viability statement, page 77
Description of principal risks and impact of business activity	How we're addressing opportunities and challenges	Risk management, page 64 Principal risks, page 67 Long-term viability statement, page 77

NON-FINANCIAL REPORTING STATEMENT

Description of the business model	Our business model	Our business model , page 27
Non-financial key performance indicators	Non-financial performance measured against 32 commitments agreed with Ofwat Health and safety measures and targets	Outcome performance history, page 35 Outcome performance table, page 36 Delivering our outcomes, page Our people: healthier, happier, safer, page 13

RISK MANAGEMENT

Resilience and risk management

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 ten 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 flu 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, the environment is continually being reviewed during this crisis. See 'Organising Anglian Water for Covid-19', page 7.

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 almost £750 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.

Resilience
Ofwat's resilience duty (introduced in 2014) focuses on the need to secure 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.

RISK MANAGEMENT

- 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.

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'.

RISK MANAGEMENT

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.

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.

RISK MANAGEMENT

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.

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

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

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

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

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

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 group'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

RISK MANAGEMENT

- Customer satisfaction
- Talent and succession
- Cyber security
- Water quality

We present each risk with an overview of the risk status:
- An indication of the direction of the inherent risk – i.e. worsening/improving over the past year.
- Status of the actions to control the risks.
- Status of current risk position.

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

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
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 8.

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

Controls and mitigation (Amber)
At the heart of our mitigation of these risks is to challenge 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 changed our Articles of Association in July 2019.

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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.

Current risk assessment (Amber)
We assess our current risk position to be Amber given that we have started the CMA appeal 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
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 almost £750 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 at Red.

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.

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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 [78.1] 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.

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 mitigate 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
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 will continue 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.

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 risks further, 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 group 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.

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.

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Regional growth

Unmitigated risk description (Amber)
With the Anglian region one of the fastest-growing areas in the UK, managing the forecast rise in population in our region is one of our most significant long-term challenges. 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.

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

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. The Anglian region is one of the fastest-growing in the country, and while this growth may be impacted by Covid-19, the longer-term demand for housing in our region will remain.

Long-term supply and climate change

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 region 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.

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.

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 UK's Corporate Leaders Group whose members are providing business leadership for a resilient, climate-neutral economy.

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.

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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 was 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

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 almost £750 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.

Controls and mitigation (Amber)

While the CMA process is underway, 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 impact to the performance measures associated with ODIs in the Final Determination.

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 to subsequent years. We have also laid out our concerns relating to ODI targets in our Statement of Case as part of the CMA appeal process.

Pollutions

Unmitigated risk description (Amber)

Leaks, spills and escapes from our water recycling network, 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 severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to the group, 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.

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.

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- 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.

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 water recycling assets.

Brexit
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 impacted 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 (including chemicals, parts and materials), and delays from customs checks and duties.
- 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 whilst the economy recovers from the pandemic.

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 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, College of West Anglia and our own Community Education team, as we seek to address the skills gap with home-grown talent. Additionally, our graduate and apprenticeship programmes are expanding to meet the skills challenge.
- Demonstrating Anglian Water's leadership as a responsible business. In addition to recent accolades, Anglian Water is at the heart of industry-wide efforts to improve public perceptions of the water sector, to ensure that it operates in the public interest.

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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.

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

Customer satisfaction
Unmitigated risk description (Green)
The customer measure of experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX comprises two survey elements: Customer Experience survey – a customer satisfaction survey among a random sample of the water company's customers; and a 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 of 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.

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

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

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

Daily monitoring of individual customer interactions with us is also undertaken in order to understand emerging themes and issues and take mitigating actions. We will undertake 'mirror' weekly customer satisfaction and monthly experience surveys to gather and closely understand our customers' thoughts and feedback. This will feed into our service design reviews and process improvements. We are also continuing to invest in new IT systems and training to ensure customers only need to contact us once to resolve a problem, and that we respond ever more quickly to meet their needs.

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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
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 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.

Controls and mitigation (Green)
The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' safety and believe that work should have a positive impact on their health and wellbeing. Health and safety is a key performance indicator in the business. The Management Board reviews health and safety performance and associated actions monthly, including thoroughly reviewing all significant incidents as well as reporting them to the Board. An in-depth review into health and safety performance is also carried out on a quarterly basis. Performance is also monitored through our ISO 45001-certified Sage 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 happier, healthier and safer employees. LIFE is about moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. It will create a culture of care and concern where we look out for each other, build strong relationships with food 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 have also held 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 group 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

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incident reporting, for capturing active management, and for health and safety training using virtual reality and online learning tools.

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

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 that 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.

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
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 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.

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

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

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

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
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.

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.

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.

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Long-term viability statement

Background
The Directors are responsible for ensuring the resilience or viability of the group's water and water recycling services to meet the needs of its customers in the long term. This means the group 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 group 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 group of review and challenge. Our vision and business strategy aim to make sure that our operations are resilient and our finances are sustainable and robust.

As part of Anglian Water'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 group'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 group'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 group:

- 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 group'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.

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Principal risks
We have set out the details of the principal risks facing the group on pages 67 to 77, described in relation to our ability to deliver our 10-year 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 64 to 67.

The Directors regularly review business plans that show projected cash flows for the current AMP period, and long-term cash flow modelling projections which 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 bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance Anglian Water'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 on the Anglian Water Services website) we provide additional detail on the processes and assumptions underpinning our long-term viability statement and demonstrate our compliance with IN 19/07.

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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 group'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 group's cost base or reduce financing costs.

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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 group'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. Whilst 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.

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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.

Approval of the Strategic Report
This Strategic Report was approved by the Board of Directors on 10 July 2020 and signed on its behalf by:

Claire Russell
Company Secretary

Anglian Water Group Limited

Group income statement

for the year ended 31 March 2020

Notes		**Year ended 31 March 2020 £m**	Year ended 31 March 2019 £m
4	**Revenue**	**1,455.7**	1,390.6
5	Other operating income	**13.0**	13.6
6	Operating costs		
	Operating costs before depreciation and amortisation	**(666.5)**	(648.2)
	Depreciation and amortisation	**(371.9)**	(351.9)
	Impairment losses	**(40.7)**	(26.5)
	Total operating costs	**(1,079.1)**	(1,026.6)
	Operating profit	**389.6**	377.6
	Finance income	**8.5**	5.7
	Finance costs, including fair value losses on derivative financial instruments	**(392.8)**	(465.7)
8	Net finance costs	**(384.3)**	(460.0)
7	Loss on disposal of business	**-**	(0.2)
16	Share of loss of joint ventures	**(6.1)**	(1.6)
	Loss before tax from continuing operations		
	Profit before exceptional items and fair value losses	**29.6**	14.4
	Exceptional items	**-**	(0.2)
	Fair value losses on derivatives	**(30.4)**	(98.4)
	Loss before tax from continuing operations	**(0.8)**	(84.2)
9	Tax (charge)/credit	**(121.2)**	10.6
	Loss for the year	**(122.0)**	(73.6)
	Attributable to:		
	Owners of the parent	**(122.0)**	(73.6)

Notes 1 to 35 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 29 provides a reconciliation of the two accounting policies and note 1(a) explains the new policy and approach to transition.

Anglian Water Group Limited

Group statement of comprehensive income

for the year ended 31 March 2020

Notes		Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
	Loss for the year	**(122.0)**	(73.6)
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
25	Actuarial gains/(losses) on retirement benefit obligations	**108.4**	(32.7)
24	Income tax (charge)/credit on items that will not be reclassified	**(17.9)**	5.5
		90.5	(27.2)
	Items that may be reclassified subsequently to profit or loss		
27	Gains on cash flow hedges	**22.3**	38.7
27	Gains on cash flow hedges transferred to profit or loss	**3.9**	1.5
27	Losses on cost of hedging transferred to profit or loss	**(0.4)**	(0.3)
	Currency translation differences	**0.4**	(0.4)
24	Income tax on items that may be reclassified	**(3.1)**	(6.5)
		23.1	33.0
	Other comprehensive income for the year, net of tax	**113.6**	5.8
	Total comprehensive expense for the year	**(8.4)**	(67.8)
	Attributable to:		
	Owners of the parent	**(8.4)**	(67.8)

Anglian Water Group Limited

Group balance sheet

for the year ended 31 March 2020

Notes		At 31 March 2020 £m	At 31 March 2019 £m
	Non-current assets		
12	Goodwill	**445.8**	445.8
13	Other intangible assets	**230.6**	212.5
14	Property, plant and equipment	**9,943.5**	9,777.5
15	Investment properties	**1.7**	1.7
16	Investment in joint ventures	**22.3**	28.4
22	Derivative financial instruments	**317.8**	195.6
25	Retirement benefit surpluses	**182.0**	55.6
		11,143.7	10,717.1
	Current assets		
17	Inventories	**19.7**	19.4
18	Trade and other receivables	**579.5**	530.0
	Current tax receivables	**-**	0.3
16	Investments - cash deposits	**328.9**	299.5
	Cash and cash equivalents	**866.7**	337.7
22	Derivative financial instruments	**16.8**	20.3
		1,811.6	1,207.2
	Total assets	**12,955.3**	11,924.3
	Current liabilities		
20	Trade and other payables	**(538.8)**	(507.0)
	Current tax liabilities	**(0.2)**	-
21	Borrowings	**(1,073.4)**	(341.9)
22	Derivative financial instruments	**(81.4)**	(16.0)
23	Provisions	**(6.6)**	(6.4)
		(1,700.4)	(871.3)
	Net current assets	**111.1**	335.9
	Non-current liabilities		
21	Borrowings	**(7,762.2)**	(7,695.0)
22	Derivative financial instruments	**(996.0)**	(980.4)
24	Deferred tax liabilities	**(1,060.8)**	(919.3)
25	Retirement benefit deficit	**(66.2)**	(76.5)
23	Provisions	**(5.9)**	(7.5)
		(9,891.1)	(9,678.7)
	Total liabilities	**(11,591.5)**	(10,550.0)
	Net assets	**1,363.8**	1,374.3

Continued on the next page.

Anglian Water Group Limited

Group balance sheet (continued)

for the year ended 31 March 2020

Notes		**At 31 March 2020 £m**	At 31 March 2019 £m
	Capital and reserves		
26	Stated capital	**-**	-
	Share premium account	**1,096.2**	1,096.2
	Retained earnings	**317.4**	351.0
27	Hedging reserve	**(52.3)**	(75.9)
27	Cost of hedging reserve	**1.1**	2.0
	Translation reserve	**1.4**	1.0
	Total equity	**1,363.8**	1,374.3

Notes 1 to 35 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 10 July 2020 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Anglian Water Group Limited

Company balance sheet

for the year ended 31 March 2020

Notes		At 31 March 2020 £m	At 31 March 2019 £m
	Non-current assets		
16	Investments	**663.2**	663.2
		663.2	663.2
	Current assets		
18	Trade and other receivables	**548.0**	548.0
		548.0	548.0
	Net assets	**1,211.2**	1,211.2
	Capital and reserves		
27	Stated capital	**-**	-
	Share premium account	**1,096.2**	1,096.2
	Retained earnings	**115.0**	115.0
	Total equity	**1,211.2**	1,211.2

Notes 1 to 35 are an integral part of these financial statements.

The profit for the year of the company was £nil (2019: £nil).

The financial statements were approved by the Board of Directors on 10 July 2020 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Anglian Water Group Limited

Group statement of changes in equity

for the year ended 31 March 2020

	Stated capital £m	Share premium account £m	(Accumulated losses)/retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	**Total equity £m**
At 1 April 2018	-	1,096.2	(7.4)	(105.3)	-	1.4	**984.9**
Change in accounting policy							
IFRS 9	-	-	2.0	(3.8)	1.8	-	**-**
IFRS 15	-	-	457.2	-	-	-	**457.2**
At 1 April 2018 (restated)	-	1,096.2	451.8	(109.1)	1.8	1.4	**1,442.1**
Loss for the year	-	-	(73.6)	-	-	-	**(73.6)**
Other comprehensive income							
Actuarial losses on retirement benefit obligations	-	-	(32.7)	-	-	-	**(32.7)**
Income tax credit on items that will not be reclassified	-	-	5.5	-	-	-	**5.5**
(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)**
Currency translation differences	-	-	-	-	-	(0.4)	**(0.4)**
	-	-	(27.2)	33.2	0.2	(0.4)	**5.8**
Total comprehensive (expense)/income	-	-	(100.8)	33.2	0.2	(0.4)	**(67.8)**
At 31 March 2019	-	1,096.2	351.0	(75.9)	2.0	1.0	**1,374.3**
Change in accounting policy - IFRS 16	-	-	(2.1)	-	-	-	**(2.1)**
At 1 April 2019 (under IFRS 16)	-	1,096.2	348.9	(75.9)	2.0	1.0	**1,372.2**
Loss for the year	-	-	(122.0)	-	-	-	**(122.0)**
Other comprehensive income							
Actuarial gains on retirement benefit obligations	-	-	108.4	-	-	-	**108.4**
Income tax charge on items that will not be reclassified	-	-	(17.9)	-	-	-	**(17.9)**
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)**
Currency translation differences	-	-	-			0.4	**0.4**
	-	-	90.5	23.6	(0.9)	0.4	**113.6**
Total comprehensive (expense)/income	-	-	(31.5)	23.6	(0.9)	0.4	**(8.4)**
At 31 March 2020	**-**	**1,096.2**	**317.4**	**(52.3)**	**1.1**	**1.4**	**1,363.8**

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 27).

Anglian Water Group Limited

Group statement of changes in equity

for the year ended 31 March 2020

Anglian Water Group Limited

Company statement of changes in equity

for the year ended 31 March 2020

	Stated capital £m	Share premium account £m	Retained earnings £m	**Total equity £m**
At 1 April 2018	-	1,096.2	115.0	**1,211.2**
Total comprehensive income	-	-	-	**-**
	-	-	-	
At 31 March 2019	-	1,096.2	115.0	**1,211.2**
Total comprehensive income	-	-	-	**-**
	-	-	-	
At 31 March 2020	**-**	**1,096.2**	**115.0**	**1,211.2**

Anglian Water Group Limited

Group and company cash flow statements

for the year ended 31 March 2020

Notes		Group		Company	
		Year ended 31 March 2020	Year ended 31 March 2019	**Year ended 31 March 2020**	Year ended 31 March 2019
		£m	£m	**£m**	£m
	Operating activities				
	Operating profit	**389.6**	377.6	**-**	-
	Adjustments for:				
	Depreciation and amortisation	**371.9**	351.9	**-**	-
	Assets adopted for £nil consideration	**(37.1)**	(22.0)	**-**	-
	Profit on disposal of property, plant and equipment	**(2.3)**	(1.2)	**-**	-
	Difference between pension charge and cash contributions	**(28.6)**	(20.4)	**-**	-
	Net movement in provisions	**3.3**	(4.7)	**-**	-
	Working capital movements:				
	(Increase)/decrease in inventories	**(0.3)**	0.7	**-**	-
	(Increase) in trade and other receivables	**(48.7)**	(2.2)	**-**	-
	Increase in trade and other payables	**21.0**	8.3	**-**	-
	Cash generated from operations	**668.8**	688.0	**-**	-
	Income taxes paid	**(0.5)**	(0.5)	**-**	-
	Net cash flows from operating activities	**668.3**	687.5	**-**	-
	Investing activities				
	Acquisition of subsidiary, net of cash acquired	**-**	(3.1)	**-**	-
7	Disposal of business, net of cash disposed	**-**	(0.2)	**-**	-
	(Loans to)/repayment of loans by joint ventures	**(2.3)**	4.0	**-**	-
	Purchase of property, plant and equipment	**(391.8)**	(406.1)	**-**	-
	Purchase of intangible assets	**(61.5)**	(64.9)	**-**	-
	Proceeds from disposal of property, plant and equipment	**2.3**	1.5	**-**	-
	Interest received	**8.7**	6.5	**-**	-
	Net cash used in investing activities	**(444.6)**	(462.3)	**-**	-
	Financing activities				
	Interest paid	**(251.3)**	(255.8)	**-**	-
	Debt issue costs paid	**(5.0)**	(3.3)	**-**	-
	Interest paid on leases	**(0.9)**	(0.6)	**-**	-
	Increase in amounts borrowed	**815.9**	908.9	**-**	-
	Repayments of amounts borrowed	**(220.3)**	(602.0)	**-**	-
	Principal settlement on derivatives	**9.6**	27.0	**-**	-
	Repayment of principal on leases	**(13.4)**	(6.2)	**-**	-
	Increase in short-term bank deposits	**(29.4)**	(256.7)	**-**	-
	Net cash from/(used in) financing activities	**305.2**	(188.7)	**-**	-
	Net increase in cash and cash equivalents	**528.9**	36.5	**-**	-
	Cash and cash equivalents at 1 April	**337.7**	301.2	**-**	-
	Effect of foreign exchange rate changes on cash and cash equivalents	**0.1**	-	**-**	-
19	**Cash and cash equivalents at 31 March**	**866.7**	337.7	**-**	-

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 the Companies (Jersey) Law 1991.

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.

b) Basis of preparation

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Inter-company sales and profit are eliminated fully on consolidation.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values, as at the acquisition date, of assets transferred by the group and liabilities incurred by the group to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its fair value, as at the acquisition date, and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

When a business combination is achieved in stages, the group’s previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Going concern
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 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 Services Limited 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.

In addition, Osprey Acquisitions Limited has a Trust Deed of Covenants under which debt is raised.

1. Accounting policies (continued)

b) Basis of preparation (continued)

Going concern (continued)
Under these structures, 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 group:
    - Anglian Water Services Limited – the group has significant cash balances and deposits, totalling £1,048.1 million, following the drawdown of £600 million of liquidity facilities and access to a further £450.0 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 includes the £600.0 million of facilities which can be rolled over to 2024 if required.
    - Osprey Acquisitions Limited and Anglian Water Osprey Financing Limited – there was in excess of £100.0 million of cash, a £250.0 million undrawn revolving credit bank facility (£50.0 million of which was drawn in April 2020) and a £250.0 million committed facility.
    - Osprey Holdco Limited and Anglian Venture Holdings Limited – Osprey Holdco Limited owns the principal commercial business of the group through its subsidiary Anglian Venture Holdings Limited, including its joint venture Wave Ltd. Osprey Holdco Limited held cash of £20.0 million at 31 March 2020. The capital structure of Wave Ltd comprises long-term debt/equity and short-term working capital provided by the two shareholders. In addition, there is an invoice discounting facility of £45.0 million.
- The challenges presented by the PR19 Final Determination (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 – this is an efficient group with a history of outperformance. The revenues of the business are underpinned by the regulatory model and the business has a stretching 5-year plan to deliver in line with the FD.
- Interest and dividend 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. Whilst 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 the business has sufficient liquidity to meet its liabilities as they fall due.

1. Accounting policies (continued)

b) Basis of preparation (continued)

Going concern *(continued)*
Whilst certain worst-case scenarios indicate the potential for a Trigger Event for Anglian Water Services Limited, 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 group and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the group through enforcing their security.

The risks of Covid-19 to Osprey Acquisitions Limited and Anglian Water Osprey Financing Limited would be a reduction in EBITDA and therefore a reduction of the interest cover ratio. Even under the most extreme Covid-19 scenarios tested there was sufficient headroom to default.

The risk for Anglian Venture Holdings Limited and therefore for Osprey Holdco Limited is that Wave will require support, especially around cash collection during the Covid-19 lockdown. Ofwat has made changes to regulations to limit bad debt risk and enable the deferral of payments to the wholesaler. This, combined with the potential for group support if required, will provide sufficient liquidity to the business.

For these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

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 (m), with the financial impact of adopting the new accounting standard set out in note 32. 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.

1. Accounting policies (continued)

b) Basis of preparation (continued)

Standards, amendments and interpretations effective or adopted *(continued)*

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); and
- 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.

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'.

On consolidation, the income statements of overseas subsidiaries are translated at the average exchange rates for the period and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

On disposal of a foreign operation, the deferred cumulative amount of exchange differences recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

1. Accounting policies (continued)

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.

1. Accounting policies (continued)

e) Revenue recognition (continued)

Grants and contributions (continued)

iv *Infrastructure charges*
Infrastructure charges are a developer's contribution to fund network reinforcement by the group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the group has concluded that the developer is the customer, and that the group's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

v *Diversions*
Diversions arise where a highways agency, or other authority, reimburses the group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

Other sources of revenue

i *Other operating income*
The principal sources of other operating income are from the generation of power, the sale of biosolids to farms, rents received and other minor income associated with operating activities.

ii *Service contracts*
Revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed.

iii *Property development*
Revenue from sale of development properties, which are not held for the long-term, is recorded when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the period-end. Revenue includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

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 substantially 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.

1. Accounting policies (continued)

h) Taxation (continued)

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.

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

i *Goodwill*
On the acquisition of a subsidiary undertaking, or business combination, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Goodwill is tested annually for impairment.

ii *Right to operate intangible assets*
The 'right to operate' intangible assets arose on acquisition of a subsidiary undertaking, representing the fair value of the contracts acquired, and are shown at cost less subsequent amortisation and any impairment. Amortisation is calculated on a straight line basis over the length of the individual contracts to which the intangible assets relate.

iii *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 outfall
- 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, 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.

1. Accounting policies (continued)

k) Property, plant and equipment (continued)

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) Investment properties

Investment properties are initially recognised at cost. Subsequently, buildings are depreciated over their useful life and land is held at cost and not depreciated.

m) Leased assets (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.

1. Accounting policies (continued)

m) Leased assets (from 1 April 2019) (continued)

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.

n) Investments

Joint ventures

Joint ventures are those entities over whose activities the group has the ability to exercise joint control, established by contractual agreement. The group's interests in jointly controlled enterprises are accounted for by the equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised income and expense of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and offset firstly against loans and trading balances with the joint venture, with any excess transferred to provisions.

Investments – cash deposits

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')
- 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.

1. Accounting policies (continued)

o) Inventories

Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

p) Financial assets and liabilities

Financial assets and liabilities are recognised in the group balance sheet 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 regards 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.

q) Trade receivables

Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable.

In calculating the expected loss, the group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

The group assesses impairment of trade receivables on a collective basis and where they possess shared credit risk characteristics they have been grouped; these groups are residential, non-household and developer services, and other customers.

Trade receivables are considered to be credit impaired where no payment has been received within 180 days past due and we believe there is no realistic prospect of recovery or it is uneconomic to pursue.

r) 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.

s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

1. Accounting policies (continued)

t) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

The group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

In some hedge relationships, the group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In this case the fair value change of the currency basis element of the cross currency interest rate swap is deferred in other comprehensive income, over the term of the hedge and is reclassified from equity to profit or loss on a straight-line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on a hedge by hedge basis.

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 or 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.

1. Accounting policies (continued)

t) Derivative financial instruments (continued)

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.

1. Accounting policies (continued)

u) Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

Regarding onerous lease costs, provision is made for the expected future costs of property and other leases to the extent that these costs are no expected to be of future benefit to the business, net of any recoveries from sub-leases.

v) 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 *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.

2. Key assumptions and significant judgements

b) Key sources of 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 group 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.

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.

2. Key assumptions and significant judgements (continued)

b) Areas involving estimation (continued)

ii *Bad debts (continued)*

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 group operates a number of defined benefit schemes (which are closed to new members and future accruals) as well as a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits', the group has recognised an actuarial gain of £108.4 million (2019: loss of £32.7 million) in respect of the defined benefit schemes which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions which include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 25 of the financial statements.

iv *Impairment of investment in joint ventures*

IAS 36 'Impairment of Assets' requires us to assess the recoverable amount of assets when there is an indication that they may be impaired. The impact of Covid-19 on the retail non-household market is an indication that we should consider the potential impairment of the equity investment in the Wave joint venture.

The carrying value of the investment in the Wave joint venture of £22.4 million comprises an equity holding of £15.6 million and a £15.7 million 5.5 per cent medium-term loan receivable, less losses to date of £8.9 million.

We have based this review on the latest valuation completed in 2019, which was externally assured and subsequently updated for key changes in the year as well as potential mitigations. These updates primarily related to the impacts of Covid-19 on revenue and cash collection but also updates to the business plan as a result of the PR19 Final Determination among others.

Based on this revised valuation, we do not believe there to be an impairment in the asset recorded.

The valuation is sensitive to the assumptions made. The valuation has a range of headroom of £8 million based on the worst-case scenario without any mitigations to £28 million based on the fully mitigated scenario.

3. Segmental information

By class of business for the year ended 31 March 2020

At 31 March 2020 the group was organised into the following main businesses:

- Anglian Water – regulated water and water recycling services provider to customers in the east of England and Hartlepool.
- Anglian Venture Holdings – comprising Alpheus Environmental which operates industrial and commercial wastewater treatment works in the UK, Celtic Anglian Water which operates water and wastewater treatment works in the Republic of Ireland, Tide Services which operates property conveyancing, residential insurances and the provision of web hosted information services for utilities on behalf of other group companies, Wave which is a 50:50 joint venture with Northumbrian Water Group Limited to provide water services to non-household customers in the UK, and OHL Property Holdings which oversees the construction of a new water recycling centre.
- Head Office and Other – comprises head office and other group functions, including Property.

There has been no change in the basis of segmentation or in the measurement of segmental profit or loss in the year.

No operating segments have been aggregated to form the above reportable operating segments.

The Directors consider the Board to be the group's chief operating decision maker in relation to segment reporting in accordance with IFRS 8 'Operating Segments'. Segmental performance is evaluated based on both profit and loss and cash flows (see table below). Segmental assets and liabilities do not form part of the Board's performance assessment and, as such, are not included in the segmental information.

Inter-segment revenues and profits are fully eliminated on consolidation and are shown separately in the following tables. The segment result comprises operating profit plus share of joint ventures operating loss.

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue					
External	1,419.6	31.1	5.0	-	**1,455.7**
Inter-segment	0.3	7.0	0.5	(7.8)	**-**
	1,419.9	**38.1**	**5.5**	**(7.8)**	1,455.7
Segment result					
EBITDA	767.6	4.8	(10.9)	-	**761.5**
Depreciation and amortisation	(368.5)	(2.8)	(0.6)	-	**(371.9)**
Share of joint venture's operating loss	-	(5.3)	-	-	**(5.3)**
	399.1	**(3.3)**	**(11.5)**	**-**	384.3
Cash flows					
Operating cash flow	686.0	4.1	(21.3)	-	**668.8**
Capital expenditure	(450.2)	-	(0.8)	-	**(451.0)**
Net debt excluding derivative financial instruments	(6,677.2)	(17.7)	(945.1)	-	**(7,640.0)**

3. Segmental information (continued)

By class of business for the year ended 31 March 2019

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue					
External	1,354.1	32.8	3.7	-	1,390.6
Inter-segment	0.6	6.9	0.4	(7.9)	-
	1,354.7	39.7	4.1	(7.9)	1,390.6
Segment result					
EBITDA	737.8	4.1	(12.4)	-	729.5
Depreciation and amortisation	(348.8)	(2.7)	(0.4)	-	(351.9)
Share of joint venture's operating profit	-	0.2	-	-	0.2
	389.0	1.6	(12.8)	-	377.8
Cash flows					
Operating cash flow	700.7	5.3	(18.0)	-	688.0
Capital expenditure	(469.1)	(0.3)	(0.1)	-	(469.5)
Net debt excluding derivative financial instruments	(6,380.3)	(19.1)	(1,000.3)	-	(7,399.7)

By geographical segment

The geographic information below analyses the group's revenue, segment result and non-current assets by geographical location.

	2020 £m	2019 £m
Revenue		
United Kingdom	**1,431.9**	1,365.2
Other countries	**23.8**	25.4
	1,455.7	1,390.6
Segment result		
United Kingdom	**383.0**	376.6
Other countries	**1.3**	1.2
	384.3	377.8
Non-current assets		
United Kingdom	**11,130.8**	10,702.0
Other countries	**13.0**	15.1
	11,143.8	10,717.1

In presenting the above information, segment revenue has been based on the geographic location of customers.

3. **Segmental information** (continued)

Reconciliation of segmental information

	2020	2019
	£m	£m
Segment result	**384.3**	377.8
Finance income	**8.4**	5.7
Finance costs	**(392.8)**	(465.7)
Share of joint venture's interest payable	**(2.0)**	(1.9)
Share of joint venture's tax	**1.2**	0.1
Loss on disposal of business	**-**	(0.2)
Loss before tax from continuing operations	**(0.9)**	(84.2)
Total operating cash flow by segment	**668.8**	688.0
Income taxes paid	**(0.5)**	(0.5)
Net cash flows from operating activities	**668.3**	687.5
Purchase of property, plant and equipment	**(391.8)**	(406.1)
Purchase of intangible assets	**(61.5)**	(64.9)
Proceeds from disposal of property, plant and equipment	**2.3**	1.5
Capital expenditure spend by segment	**(451.0)**	(469.5)
Cash and cash equivalents	**866.7**	337.7
Cash deposits	**328.9**	299.5
Borrowings due within one year	**(1,073.4)**	(341.9)
Borrowings due after more than one year	**(7,762.2)**	(7,695.0)
Net debt by segment	**(7,640.0)**	(7,399.7)
Derivative financial instruments (1)	**(738.2)**	(779.5)
Net debt	**(8,378.2)**	(8,179.2)

(1) 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.

4. Revenue

	2020 **£m**	2019 £m
Water and water recycling 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
	1,419.9	1,354.7
Anglian Venture Holdings	**38.1**	39.7
Inter-segment eliminations	**(7.3)**	(7.5)
	1,450.7	1,386.9
Property	**5.0**	3.7
	1,455.7	1,390.6

The group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the above revenue categories.

The above analysis excludes other operating income (see note 5) and finance income (see note 8).

5. Other operating income

Other operating income comprises principally income from sustainable power generation, biosolid sales and rents received.

6. Operating costs

	2020 **£m**	2019 £m
Raw materials and consumables	**25.7**	21.0
Staff costs	**246.9**	241.3
Operating lease rentals		
Property	**-**	4.8
Plant and equipment	**-**	4.2
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	**462.2**	441.2
Own work capitalised	**(72.4)**	(66.2)
Profit on disposal of property, plant and equipment (1)	**(2.3)**	(1.5)
Operating costs before depreciation and amortisation	**666.5**	648.2
Depreciation of property, plant and equipment (2)	**324.4**	308.9
Amortisation of intangible assets	**47.5**	42.9
Depreciation of investment properties	**-**	0.1
Depreciation and amortisation	**371.9**	351.9
Impairment losses	**40.7**	26.5
Operating costs	**1,079.1**	1,026.6

(1) The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

(2) Included within depreciation of property, plant and equipment for the year ended 31 March 2020 is £5.2 million in respect of leases recognised under IFRS 16.

During the year the group obtained the following services from the company's Auditor:

	2020 **£m**	2019 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	**0.4**	-
Fees payable to the company's Auditor for other services		
The audit of the company's subsidiaries	**-**	0.3
Audit-related assurance services	**0.2**	0.2
Other non-audit services	**0.2**	0.5
	0.8	1.0

The company's Auditor for the year ended 31 March 2020 and 31 March 2019 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the group's half-year results. Other non-audit services include £0.2 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.

7. (Loss)/profit on disposal of business

On 20 December 2018, Morrison International Ltd disposed of its shares in Vector Morrison (Ghana) Limited, incurring costs of £0.2 million.

8. Net finance costs

	2020	2019
	£m	£m
Finance income		
Interest income on short-term bank deposits	**6.1**	3.3
Other interest income	**2.4**	2.4
	8.5	5.7
Finance costs		
Interest expense on bank loans and overdrafts	**(0.1)**	-
Interest expense on loans including financing expenses	**(276.5)**	(271.6)
Indexation of loan stock	**(114.5)**	(129.6)
Amortisation of debt issue costs	**(5.3)**	(5.0)
Interest on leases	**(0.9)**	0.3
Amortisation of fair value adjustments	**17.0**	17.0
Unwinding of discount on onerous lease obligation provision	**(0.1)**	(0.2)
Defined benefit pension scheme interest	**0.2**	0.1
Total finance costs	**(380.2)**	(389.0)
Less: amounts capitalised on qualifying assets	**17.8**	21.7
	(362.4)	(367.3)
Fair value losses on derivative financial instruments		
Fair value losses on energy hedges	**(1.8)**	(1.8)
Hedge ineffectiveness on cash flow hedges (1)	**0.5**	3.4
Hedge ineffectiveness on fair value hedges (2)	**(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)
Finance costs, including fair value losses on derivative financial instruments	**(392.8)**	(465.7)
Net finance costs	**(384.3)**	(460.0)

(1) 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 22 for details.

(2) 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).

9. Taxation

	2020 £m	2019 £m
Current tax		
In respect of the current period	**0.5**	43.5
Adjustments in respect of prior periods	**0.2**	3.7
Total current tax charge	**0.7**	47.2
Deferred tax		
Origination and reversal of temporary differences	**8.8**	(49.5)
Adjustments in respect of previous periods	**(0.9)**	(4.1)
Reversal of decrease in corporation tax rate	**112.6**	(4.2)
Total deferred tax charge/(credit)	**120.5**	(57.8)
Total tax charge/(credit) on loss on continuing operations	**121.2**	(10.6)

The current tax charge for 2020 reflects tax payable overseas. No capital allowances have been disclaimed in 2020.

The current tax charge for 2019 included 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.

The deferred tax charge for 2020 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 with effect from 1 April 2020. In 2019, deferred tax balances were measured using a rate of 17 per cent. This reduction in corporation tax rate was reversed in 2020 and so those deferred tax balances have been re-measured using the rate of 19 per cent.

The tax charge/(credit) on the group’s 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 loss before tax from continuing operations as follows:

	2020 £m	2019 £m
Loss before tax from continuing operations	**(0.8)**	(84.2)
Loss before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(0.2)**	(16.0)
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	**0.4**	1.2
Disallowable expenditure	**0.9**	1.5
Interest restriction	**7.2**	1.4
Difference in overseas tax rates	**(0.2)**	(0.2)
Joint ventures results reported net of tax	**1.2**	0.3
	9.3	(11.8)
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	**112.6**	(4.2)
Effects of differences between rates of current and deferred tax	**-**	5.8
Adjustments in respect of prior periods	**(0.7)**	(0.4)
Tax charge/(credit) for the year	**121.2**	(10.6)

9. 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	2019
	£m	£m
Deferred tax		
Defined benefit pension schemes	**20.6**	(5.6)
Cash flow hedges	**4.9**	6.4
Reversal of decrease in corporation tax rate - pension	**(2.7)**	0.1
Reversal of decrease in corporation tax rate - hedges	**(1.8)**	0.1
Total deferred tax charge recognised in other comprehensive income	**21.0**	1.0
Total tax charge recognised in other comprehensive income	**21.0**	1.0

The company is registered in Jersey but is tax resident in the United Kingdom due to its business being centrally managed and controlled there. As such the company has always been subject to UK corporation tax and is not subject to Jersey income tax and withholding tax. The company would ordinarily be subject to Jersey Goods and Services Tax (GST) at the rate of 5 per cent. To alleviate this charge the company has registered as an International Service Entity which exempts it from this tax.

10. Employee information and Directors' emoluments

a) Employee information

	2020	2019
	£m	£m
Staff costs		
Wages and salaries	**208.2**	199.9
Social security costs	**21.6**	19.9
Pension costs - defined contribution	**18.4**	17.6
Pension costs - defined benefit	**(1.3)**	3.9
	246.9	241.3

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
Anglian Water	**4,984**	4,764
Anglian Venture Holdings	**180**	169
Other	**46**	54
	5,210	4,987

The company
The company has no employees (2019: none).

10. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	2020 £'000	2019 £'000
Aggregate emoluments	**2,566**	2,394
Pension costs - defined contribution	**-**	193
Benefits received under long-term incentive plans	**563**	1,605

Aggregate emoluments of the Directors comprise 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.

	2020 £'000	2019 £'000
Highest paid director		
Aggregate emoluments	**1,088**	1,050
Pension costs - defined contribution	**-**	123
Benefits received under long-term incentive plans	**188**	804

11. Profit of the parent company

The company has not presented its own income statement as permitted by article 105(11) of the Companies (Jersey) Law 1991. The profit for the year, dealt with in the financial statements of the company, was £nil (2019: £nil).

12. Goodwill

	Group	
	2020	2019
	£m	£m
Cost		
At the beginning of the year and at 31 March	**935.4**	935.4
Accumulated impairment		
At the beginning of the year and at 31 March	**(489.6)**	(489.6)
Net book amount		
At 31 March	**445.8**	445.8

Allocation of goodwill

All goodwill is allocated to the Anglian Water business segment, the group's UK regulated water and water recycling services provider.

Impairment testing of goodwill allocated to Anglian Water

The recoverable amount of the Anglian Water segment is determined based on a fair value less cost to sell methodology. This calculation uses a multiple of Regulatory Capital Value (RCV) with reference to the recent transactions that have taken place in the sector and the market value of the listed companies in the sector. The basis applied has been deemed appropriate as it is consistent with the economic value as assessed by management and other market participants.

The current comparable transactions in the sector indicate that current multiples are 1.25x, although these have been between 1.2x and 1.4x RCV in recent years. The implied multiples for the listed water companies are also around 1.1x to 1.2x on a non-controlling basis, based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x at 31 March 2020, results in headroom of £863 million (2019: 1.25x, £766 million). The headroom at 31 March 2020 is eliminated at an RCV multiple of 1.15x (2019: 1.15x).

Goodwill is also assessed using forecast discounted cash flows which also demonstrates that there is headroom above the carrying value.

13. Other intangible assets

	Computer software £m	Right to operate asset £m	Internally generated £m	Total £m
The group				
Cost				
At 1 April 2018	341.2	22.3	93.2	**456.7**
Additions	49.6	-	19.9	**69.5**
Disposals	(0.9)	-	-	**(0.9)**
Exchange adjustments	-	(0.5)	-	**(0.5)**
At 31 March 2019	389.9	21.8	113.1	**524.8**
Additions	45.2	-	19.9	**65.1**
Disposals	(3.2)	-	-	**(3.2)**
Exchange adjustments	0.9	(0.2)	-	**0.7**
At 31 March 2020	**432.8**	**21.6**	**133.0**	**587.4**
Accumulated amortisation				
At 1 April 2018	(220.2)	(4.5)	(45.8)	**(270.5)**
Charge for the year	(23.1)	(2.5)	(17.3)	**(42.9)**
Disposals	0.9	-	-	**0.9**
Exchange adjustments	-	0.2	-	**0.2**
At 31 March 2019	(242.4)	(6.8)	(63.1)	**(312.3)**
Charge for the year	(25.8)	(2.5)	(19.2)	**(47.5)**
Disposals	3.2	-	-	**3.2**
Exchange adjustments	(0.3)	0.1	-	**(0.2)**
At 31 March 2020	**(265.3)**	**(9.2)**	**(82.3)**	**(356.8)**
Net book amount				
At 31 March 2020	**167.5**	**12.4**	**50.7**	**230.6**
At 31 March 2019	147.5	15.0	50.0	212.5

The 'right to operate' asset arose on the acquisition of Celtic Anglian Water Limited in June 2016, whilst 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.

The company

The company has no intangible assets (2019: none).

14. Property, plant and equipment

	Land and buildings	Infra-structure assets	Operational assets	Vehicles, mobile plant and equipment	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
The group						
Cost						
At 1 April 2018	55.1	6,701.1	5,797.7	805.2	450.3	**13,809.4**
Additions	-	-	-	0.3	415.2	**415.5**
Transfers on commissioning	3.1	154.5	247.8	51.5	(456.9)	**-**
Disposals	(0.1)	-	(11.2)	(13.2)	-	**(24.5)**
Exchange adjustments	-	-	-	-	-	**-**
At 31 March 2019	58.1	6,855.6	6,034.3	843.8	408.6	**14,200.4**
Change in accounting policy - IFRS 16	26.2	-	1.5	0.8	-	**28.5**
At 1 April 2019 (under IFRS 16)	84.3	6,855.6	6,035.8	844.6	408.6	**14,228.9**
Additions	0.5	-	-	0.9	462.4	**463.8**
Transfer on commissioning	5.9	205.7	214.2	74.5	(500.3)	**-**
Disposals	(2.2)	-	(11.1)	(24.1)	-	**(37.4)**
Exchange adjustments	-	-	-	-	-	**-**
At 31 March 2020	**88.5**	**7,061.3**	**6,238.9**	**895.9**	**370.7**	**14,655.3**
Accumulated depreciation						
At 1 April 2018	(8.4)	(670.0)	(2,913.6)	(546.2)	-	**(4,138.2)**
Charge for the year	(0.7)	(55.6)	(202.5)	(50.1)	-	**(308.9)**
Disposals	0.1	-	11.1	13.0	-	**24.2**
At 31 March 2019	(9.0)	(725.6)	(3,105.0)	(583.3)	-	**(4,422.9)**
Charge for the year	(4.9)	(57.1)	(210.6)	(51.8)	-	**(324.4)**
Disposals	0.5	-	11.1	23.9	-	**35.5**
Exchange adjustments	-	-	-	-	-	**-**
At 31 March 2020	**(13.4)**	**(782.7)**	**(3,304.5)**	**(611.2)**	**-**	**(4,711.8)**
Net book amount						
At 31 March 2020	**75.1**	**6,278.6**	**2,934.4**	**284.7**	**370.7**	**9,943.5**
At 31 March 2019	49.1	6,130.0	2,929.3	260.5	408.6	9,777.5

Property, plant and equipment at 31 March 2020 includes land of £31.3 million (2019: £31.0 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).

14. Property, plant and equipment (continued)

Assets held under 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
Net book amount at 31 March	**77.9**	44.7

The company
The company has no property, plant and equipment (2019: none).

15. Investment properties

		Group
	2020 £m	2019 £m
Cost		
At 1 April	**1.9**	1.9
Additions	**-**	-
At 31 March	**1.9**	1.9
Accumulated depreciation		
At 1 April	**(0.2)**	(0.1)
Depreciation charge for the year	**-**	(0.1)
At 31 March	**(0.2)**	(0.2)
Net book amount		
At 31 March	**1.7**	1.7

Investment properties are accounted for using the cost model, in line with the accounting policy for property, plant and equipment.

The fair value of investment properties is not materially different from their book value.

The company
The company has no investment properties (2019: none).

16. Investments

	Group		Company	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Non-current				
Joint ventures	**22.3**	28.4	**-**	-
Subsidiary undertakings	**-**	-	**663.2**	663.2
	22.3	28.4	**663.2**	663.2
Current				
Cash deposits	**328.9**	299.5	**-**	-
	328.9	299.5	**-**	-

Cash deposits disclosed within investments represent short-term bank deposits with maturities at the point of deposit of three to six months.

a) Joint ventures

	Group	
	2020	2019
	£m	£m
At the beginning of the year	**28.4**	30.0
Loss for the year	**(6.1)**	(1.6)
At 31 March	**22.3**	28.4

The loss for the year of joint ventures comprises the group’s share of the results of the Wave joint venture as follows: operating loss of £5.3 million (2019: £0.2 million), an interest expense of £2.0 million (2019: £1.9 million), and a tax credit of £1.2 million (2019: £0.1 million). Other joint ventures are immaterial to the group.

The group’s initial investment in the Wave joint venture was £31.3 million, comprising an equity holding of £15.6 million and a £15.7 million 5.5 per cent medium-term loan repayable on 31 August 2027 or such other date as mutually agreed between the parties.

A full listing of group’s joint ventures can be found in note 35, none of which are material to the group.

Osprey Holdco Limited and Anglian Venture Holdings Limited are party to indemnities in respect of the Wave joint venture in relation to wholesale water charges payable to Anglian Water Services Limited for £16.5 million and another wholesaler for £11.5 million. Additionally, Anglian Venture Holdings Limited is party to an indemnity in respect of the Wave joint venture in relation to wholesale water charges payable to other wholesalers for £7.5 million. See note 30.

In addition, Anglian Venture Holdings Limited has undertaken to discharge any defined benefit pension scheme liability arising on any of its employees, including those of Anglian Water Business (National) Limited, transferring into the Wave joint venture.

The joint ventures have no significant contingent liabilities to which the group is exposed.

16. Investments (continued)

b) Subsidiary undertakings

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Total £m
The company			
Cost			
At 1 April 2018, at 31 March 2019 and at 31 March 2020	**548.0**	**663.2**	**1,211.2**

The loan is interest free and repayable on demand, and has been included in short-term trade and other receivables.

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

Subsidiary undertakings are listed in note 35.

17. Inventories

	Group	
	2020	2019
	£m	£m
Raw materials and consumables	**13.2**	11.8
Work in progress	**6.5**	7.6
	19.7	19.4

Work in progress comprises the cost of properties held for development.

The company
The company has no inventories (2019: none).

18. Trade and other receivables

	Group		Company	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Trade receivables	**359.9**	349.6	**-**	-
Provision for impairments	**(212.0)**	(193.4)	**-**	-
Net trade receivables	**147.9**	156.2	**-**	-
Loans receivable from subsidiaries	**-**	-	**548.0**	548.0
Amounts receivable from joint ventures				
Trade balances	**-**	0.5	**-**	-
Loans	**35.0**	32.7	**-**	-
Other amounts receivable [1]	**24.2**	17.5	**-**	-
Prepayments and accrued income	**372.4**	323.1	**-**	-
	579.5	530.0	**548.0**	548.0

(1) Other amounts receivable includes £12.9 million VAT debtor (2019: £11.3 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 £360.8 million (2019: £310.3 million). Of the trade receivables, £332.5 million (2019: £330.7 million) relates to Anglian Water Services residential customers, £0.6 million (2019: £4.5 million) relates to Anglian Water Services legacy non-household customer balances retained following market reform, and the remaining 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.

Loans receivable from joint ventures at 31 March 2020 comprise the following amounts due from the Wave joint venture:

- A £12.0 million 5.0 per cent preference loan repayable in five annual instalments of £4.0 million from August 2018;
- A £16.7 million loan at 12 month LIBOR plus 2.75 per cent with no fixed repayment date;
- A £6.3 million short-term working capital facility at one month LIBOR plus 2.75 per cent repayable on 30 June 2020.

In addition to the amounts highlighted as receivable from joint ventures in the above table, the following additional amounts due from joint ventures have been included within prepayments and accrued income: accrued income of £18.2 million (2019: £18.6 million) and interest receivable of £1.4 million (2019: £1.6 million).

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. By far the most significant business unit of the group is Anglian Water, which represents 98 per cent of the group's revenue and 97 per cent of its net trade receivables. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water 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.

18. Trade and other receivables (continued)

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 which 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).

None of the other business units are individually significant to the group.

The movement on the doubtful debts provision, all of which relates to trade receivables, was as follows:

		Group
	2020	2019
	£m	£m
Provisions at the beginning of the year	**193.4**	183.1
Charge for bad and doubtful debts	**40.7**	26.5
Amounts written off during the year	**(22.1)**	(16.2)
At 31 March	**212.0**	193.4

19. Analysis of net debt

The group	Net cash and cash equivalents	Current asset investments - cash deposits	Borrowings	Derivative financial instruments (1)	**Net debt**
	£m	£m	£m	£m	**£m**
At 1 April 2018	301.2	42.8	(7,558.9)	(731.8)	**(7,946.7)**
Cash flows					
Interest paid	(255.8)	-	34.9	3.5	**(217.4)**
Debt issue costs paid	(3.3)	-	3.3	-	**-**
Interest on leases	(0.6)	-	-	-	**(0.6)**
Increase in amounts borrowed	908.9	-	(912.9)	-	**(4.0)**
Repayments of amounts borrowed	(602.0)	-	602.0	-	**-**
Principal settlement on derivatives	27.0	-	-	(27.0)	**-**
Repayment of principal on leases	(6.2)	-	6.2	-	**-**
Increase in short-term bank deposits	(256.7)	256.7	-	-	**-**
Non-financing cash flows (2)	225.2	-	-	-	**225.2**
	36.5	256.7	(266.5)	(23.5)	**3.2**
Movement in interest accrual on debt	-	-	(15.5)	-	**(15.5)**
Issue costs in relation to new borrowings	-	-	2.1	-	**2.1**
Amortisation of issue costs	-	-	(5.0)	-	**(5.0)**
Amortisation of fair value adjustments	-	-	17.0	-	**17.0**
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	**(129.6)**
Fair value gains and losses and foreign exchange	-	-	(112.4)	7.7	**(104.7)**
At 31 March 2019	337.7	299.5	(8,036.9)	(779.5)	**(8,179.2)**
At 1 April 2019	337.7	299.5	(8,036.9)	(779.5)	**(8,179.2)**
Change in accounting policy - IFRS 16	-	-	(34.8)	-	**(34.8)**
At 1 April 2019 (under IFRS 16)	337.7	299.5	(8,071.7)	(779.5)	**(8,214.0)**
Cash flows					
Interest paid	(251.3)	-	31.9	2.1	**(217.3)**
Debt issue costs paid	(5.0)	-	5.0	-	**-**
Interest on leases	(0.9)	-	-	-	**(0.9)**
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	(13.4)	-	13.4	-	**-**
Increase in short-term bank deposits	(29.4)	29.4	-	-	**-**
Non-financing cash flows (2)	223.7	-	-	-	**223.7**
	528.9	29.4	(545.3)	(7.5)	**5.5**
Movement in interest accrual on debt	-	-	(0.4)	-	**(0.4)**
New lease agreements	-	-	(8.4)	-	**(8.4)**
Termination of leases	-	-	1.8	-	**1.8**
Amortisation of issue costs	-	-	(5.4)	-	**(5.4)**
Amortisation of fair value adjustments	-	-	17.0	-	**17.0**
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	**(114.5)**
Fair value gains and losses and exchange movements	0.1	-	(117.7)	85.5	**(32.1)**
Interest added to debt	-	-	(27.7)	-	**(27.7)**
At 31 March 2020	**866.7**	**328.9**	**(8,835.6)**	**(738.2)**	**(8,378.2)**

19. Analysis of net debt (continued)

	Net cash and cash equivalents	Current asset investments - cash deposits	Borrowings	Derivative financial instruments (1)	**Net debt**
	£m	£m	£m	£m	**£m**
Net debt at 31 March 2020 comprises:					
Non-current assets	-	-	-	317.3	**317.3**
Current assets	866.7	328.9	-	16.8	**1,212.4**
Current liabilities	-	-	(1,073.4)	(78.4)	**(1,151.8)**
Non-current liabilities	-	-	(7,762.2)	(993.9)	**(8,756.1)**
	866.7	**328.9**	**(8,835.6)**	**(738.2)**	**(8,378.2)**

(1) 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.

(2) Non-financing cash flows comprise: net cash flows from operating activities of £668.3 million (2019: £687.5 million), less net cash used in investing activities of £444.6 million (2019: £462.3 million) and dividends paid of £nil (2019: £nil).

Energy hedges, excluded from net debt, are included within derivative financial instruments as follows:

	2020	2019
	£m	£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)

Current asset investments above comprise £328.9 million (2019: £299.5 million) of short-term cash deposits with an original maturity of more than three months.

At 31 March 2020, £729.1 million (2019: £257.3 million) of the group’s cash and cash equivalents and £319.0 million (2019: £297.0 million) of the short-term deposits were held by Anglian Water and its financing subsidiary. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £0.2 million (2019: £0.2 million) of the group’s cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £0.4 million (2019: £1.8 million) of the group’s cash and cash equivalents and £3.9 million (2019: £2.5 million) of the short-term deposits were held by Rutland Insurance Limited (the group’s captive insurance company) in order to maintain its required solvency ratio.

20. Trade and other payables

	Group	
	2020	2019
	£m	£m
Trade payables	**35.4**	30.6
Capital creditors and accruals	**97.2**	87.9
Receipts in advance	**325.7**	299.8
Amounts owed to group undertakings	**-**	-
Other taxes and social security	**5.9**	5.3
Accruals and deferred income	**65.5**	72.8
Other payables	**9.1**	10.6
	538.8	507.0

Receipts in advance includes £281.6 million (2019: £254.2 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report of Anglian Water Services Limited.

The Directors consider that the carrying values of trade and other payables are not materially different from their fair values.

The company
The company has no trade and other payables (2019: none).

21. Loans and other borrowings

	Group 2020 £m	2019 £m
£250 million 5.837% fixed rate 2022	**262.4**	263.4
£200 million 6.875% fixed rate 2023	**215.2**	217.2
£200 million 6.625% fixed rate 2029	**214.2**	215.4
£246 million 6.293% fixed rate 2030	**274.0**	273.6
£150 million 4.125% index-linked 2020	**265.6**	261.5
£75 million 3.666% index-linked 2024	**131.2**	129.1
£200 million 3.07% index-linked 2032	**369.3**	363.1
£60 million 3.07% index-linked 2032	**111.8**	110.0
IFRS 16 leases	**49.7**	21.4
£402 million 2.4% index-linked 2035	**635.0**	621.4
£50 million 1.7% index-linked 2046	**81.6**	79.9
£50 million 1.7% index-linked 2046	**81.7**	79.9
£40 million 1.7146% indexation bond 2056	**68.0**	66.7
£50 million 1.6777% indexation bond 2056	**84.5**	82.8
£60 million 1.7903% indexation bond 2049	**100.9**	98.9
£100 million 1.3784% indexation bond 2057	**149.7**	146.0
£50 million 1.3825% indexation bond 2056	**74.8**	73.0
£100 million Class A wrapped floating rate bonds 2057	**100.1**	100.1
£75 million 1.449% indexation bond 2062	**106.9**	103.8
£50 million 1.52% indexation bond 2055	**71.2**	69.2
£110 million Class A unwrapped floating rate bonds 2043	**110.1**	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038 (5)	**-**	33.6
£25 million 6.875% private placements 2034	**25.0**	25.0
EIB £50 million 1.626% index-linked term facility 2019	**-**	67.2
EIB £50 million 1.3% index-linked term facility 2020	**-**	66.2
£130 million 2.262% indexation bond 2045	**171.8**	168.0
US$160 million 4.52% private placements 2021	**135.3**	127.7
US$410 million 5.18% private placements 2021	**334.9**	318.6
EIB £75 million 0.53% index-linked term facility 2027 (1)	**64.4**	71.9
EIB £75 million 0.79% index-linked term facility 2027 (1)	**64.5**	71.9
£250 million 4.5% fixed rate 2027	**252.7**	252.4
£15 million 1.37% index-linked private placements 2022	**18.1**	17.6
£50 million 2.05% index-linked private placements 2033	**60.3**	59.0
£31.9 million 3.983% private placements 2022	**32.5**	32.4
£73.3 million 4.394% private placements 2028	**79.6**	76.2
£22.3 million 3.983% private placements 2022	**22.7**	22.7
US$47 million 5% private placements 2022	**38.7**	36.9
EIB £150 million 0% index-linked term facility 2028 (2)	**142.8**	157.0
£200 million Class B 4.5% fixed rate 2026	**209.8**	207.2
£35 million 1.141% index-linked bond 2042	**41.3**	40.3
US$170 million 3.84% private placements 2023	**150.7**	135.7
£93 million 3.537% private placements 2023	**94.3**	94.2
US$160 million 4.99% private placements 2023	**130.6**	124.4
EIB £65 million 0.41% index-linked term facility 2029	**67.5**	73.4
EIB Tranche 2 £125 million 0.1% 2029 (3)	**135.7**	139.6
EIB Tranche 3 £60 million 0.01% 2030 (4)	**68.2**	66.7
RCF £550 million (6)	**548.0**	(1.1)
RCF £100 million bilaterals	**49.9**	-
US$150 million 3.29% private placements 2026	**130.4**	113.9
£55 million 2.93% fixed rate private placements 2026	**55.3**	55.3
£20 million 2.93% fixed rate private placements 2026	**20.0**	20.0
£35 million floating rate private placements 2031	**34.7**	34.7
Sub-total carried forward	**6,737.5**	6,195.1

21. Loans and other borrowings (continued)

	Group	
	2020	2019
	£m	£m
Sub-total brought forward	**6,737.5**	6,195.1
£200 million Class B 2.6225% fixed rate 2027	**203.6**	199.9
£250 million Green Bond 1.625% 2025	**258.7**	250.6
£300 million Green bond 2.75% 2029	**299.7**	299.4
£25 million 3.0% fixed rate 2031	**24.9**	25.0
US$53 million 3.053% fixed rate 2029	**42.7**	40.8
£85 million 2.88% fixed rate 2029	**84.8**	85.0
£65 million 2.87% fixed rate 2029	**65.4**	(0.3)
£65 million CPI 0.835% 2040	**(0.4)**	(0.4)
JPY 7 billion 0.855% fixed rate 2039	**52.4**	-
EDC £100 million 1.588% fixed rate 2028	**100.2**	-
Liquidity facilities	**0.4**	0.4
£210 million Class B 5.0% fixed rate bond 2023	**213.4**	213.1
£240 million Class B 4.0% fixed rate bond 2026	**239.1**	238.9
Loan notes	**0.2**	0.2
Unamortised issue costs relating to undrawn facilities	**(2.1)**	-
Other loans	**5.1**	5.8
£462 million 10.0% unsecured loan notes	**510.0**	483.4
Total loans and other borrowings	**8,835.6**	8,036.9
Included in:		
Current liabilities	**1,073.4**	341.9
Non-current liabilities	**7,762.2**	7,695.0

(1) These instruments are amortising from 2017 until the date of maturity shown.

(2) This instrument is amortising from 2018 until the date of maturity shown.

(3) This instrument is amortising from 2019 until the date of maturity shown.

(4) This instrument is amortising from 2020 until the date of maturity shown.

(5) Legal maturity of these instruments is the second of the years quoted. Coupon ‘step up’ is in the first of the years quoted in accordance with the pricing terms agreed at issue. These notes have been called in line with the terms at issue and therefore have already been agreed been redeemed or will redeem at the earlier date quoted.

(6) The Revolving Credit Facility was increased to £550 million in June 2019 (31 March 2019: £500 million) with maturity extended to 24 June 2024.

The company

The company has no loans and other borrowings (2019: none).

21. 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 £36.2 million (2019: £37.7 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

A security agreement dated 30 July 2002 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 was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2020 this charge applies to £7,675.8 million (2019: £6,913.2 million) of the debt listed above.

A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2020 this charge applies to £452.7 million (2019: £452.0 million) of the debt listed 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:

2020	**Carrying value £m**	**Proportion hedged %**	**Accumulated hedge adjustment [2] £m**	**Discounted hedge adjustment £m**
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	**274.0**	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 [1]	**334.9**	-	0.2	0.2
Total	**1,777.0**		(55.0)	0.2

[1] This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015 resulting in the discontinued hedge adjustment.

[2] The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement.

21. Loans and other borrowings (continued)

	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment [3] £m	Discounted hedge adjustment £m
2019				
US$150 million 3.29% private placements 2026	113.9	76	1.9	-
US$160 million 4.52% private placements 2021	127.7	100	(3.6)	-
US$170 million 3.84% private placements 2023	135.7	94	(3.5)	-
£200 million Class B 2.6225% fixed rate 2027	199.9	41	(0.2)	-
£200 million Class B 4.5% fixed rate 2026	207.2	50	(8.1)	-
£246 million 6.293% fixed rate 2030	273.6	20	(0.8)	-
£250 million Green Bond 1.625% 2025	250.6	100	(0.5)	-
JPY 5 billion 3.22% fixed rate bond 2019/2038 [1]	33.6	100	1.4	0.1
£73.3 million 4.394% private placements 2028	76.2	100	(1.4)	-
US$410 million 5.18% private placements 2021 [2]	318.6	-	0.4	0.4
Total	1,737.0		(14.4)	0.5

(1) This discontinued hedge balance relates to the novation of swaps within the relationship from one bank to another. No economic terms were changed.

(2) This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015 resulting in the discontinued hedge adjustment.

(3) The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement.

22. Financial instruments

Financial assets by category

The group	Asset at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments - amortised cost £m	Total £m
At 31 March 2020					
Investments					
Current - cash deposits	**-**	**-**	**-**	**328.9**	**328.9**
Cash and cash equivalents					
Current	**-**	**-**	**866.7**	**-**	**866.7**
Trade and other receivables					
Current	**-**	**-**	**567.9**	**-**	**567.9**
Derivative financial instruments					
Current	**-**	**16.8**	**-**	**-**	**16.8**
Non-current	**68.8**	**249.0**	**-**	**-**	**317.8**
	68.8	**265.8**	**1,434.6**	**328.9**	**2,098.1**
At 31 March 2019					
Investments					
Current - cash deposits	-	-	-	299.5	299.5
Cash and cash equivalents					
Current	-	-	337.7	-	337.7
Trade and other receivables					
Current	-	-	517.2	-	517.2
Derivative financial instruments					
Current	-	20.3	-	-	20.3
Non-current	42.4	153.2	-	-	195.6
	42.4	173.5	854.9	299.5	1,370.3

Trade and other receivables above exclude prepayments.

The company	Assets at amortised cost and cash equivalents £m	Investments - amortised cost £m	Total £m
At 31 March 2020			
Investments			
Non-current	**-**	**663.2**	**663.2**
Trade and other receivables			
Current	**548.0**	**-**	**548.0**
	548.0	**663.2**	**1,211.2**
At 31 March 2019			
Investments			
Non-current	-	663.2	663.2
Trade and other receivables			
Current	548.0	-	548.0
	548.0	663.2	1,211.2

22. **Financial instruments** (continued)

Financial liabilities by category

The group	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2020				
Borrowings				
Current	**-**	**-**	**1,073.4**	**1,073.4**
Non-current	**-**	**-**	**7,762.2**	**7,762.2**
Trade and other payables				
Current	**-**	**-**	**213.1**	**213.1**
Derivative financial instruments				
Current	**76.5**	**4.9**	**-**	**81.4**
Non-current	**976.4**	**19.6**	**-**	**996.0**
	1,052.9	**24.5**	**9,048.7**	**10,126.1**
At 31 March 2019				
Borrowings				
Current	-	-	341.9	341.9
Non-current	-	-	7,695.0	7,695.0
Trade and other payables				
Current	-	-	207.2	207.2
Derivative financial instruments				
Current	12.5	3.5	-	16.0
Non-current	960.7	19.7	-	980.4
	973.2	23.2	8,244.1	9,240.5

Trade and other payables above exclude receipts in advance.

The company
The company has no financial liabilities (2019: none).

22. **Financial instruments** (continued)

Derivative financial instruments

The group	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Designated as cash flow hedges				
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)
	138.5	**(24.5)**	90.2	(23.2)
Designated as fair value hedges				
Interest rate swaps	**32.1**	**-**	13.1	-
Cross-currency interest rate swaps	**95.2**	**-**	70.2	-
	127.3	**-**	83.3	-
Derivative financial instruments designated as hedges	**265.8**	**(24.5)**	173.5	(23.2)
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)
Total derivative financial instruments	**334.6**	**(1,077.4)**	215.9	(996.4)
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)
	334.6	**(1,077.4)**	215.9	(996.4)

The company

The company has no derivative financial instruments (2019: none).

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 other comprehensive income 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 other comprehensive income 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).

22. Financial instruments (continued)

Leases

The minimum lease payments in respect of all leases (2019: operating leases only) fall due as follows:

The group	2020	2019
	£m	£m
Within one year	12.0	6.7
Between two and five years	24.0	15.0
After five years	22.7	-
	58.7	21.7
Future finance charges on leases	(9.3)	(0.3)
Present value of lease liabilities	49.4	21.4

Fair value of financial assets and liabilities

The group	2020 Book value	2020 Fair value	2019 Book value	2019 Fair value
	£m	£m	£m	£m
Cash and cash equivalents	866.7	866.7	337.7	337.7
Current asset investments - cash deposits	328.9	328.9	299.5	299.5
Borrowings				
Current	(1,073.4)	(1,080.2)	206.1	205.8
Non-current	(7,762.2)	(9,491.8)	(7,695.0)	(9,133.6)
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	(8,378.2)	(10,114.6)	(8,179.2)	(9,109.7)
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)
	(8,382.8)	(10,119.2)	(8,180.2)	(9,110.7)

22. 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 which provide protection in the event of counterparty rating downgrade or default. The group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked 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 which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

Movements in the year to 31 March 2020 for assets and liabilities measured at fair value using level 3 valuation inputs are presented below:

The group	**2020**	2019
	£m	£m
At the beginning of the period	**(110.3)**	-
Net loss for the year	**(0.6)**	(110.3)
At the end of the period	**(110.9)**	(110.3)

Gains and losses in the period are recognised in fair value losses on derivatives within the income statement.

22. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

Level 3 derivative financial instruments (continued)

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:

The group	2020 £m	2019 £m
Gain/(loss)		
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.

22. Financial instruments (continued)

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, which has 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. The group accounts for debt at amortised cost but also discloses the fair value, the above has had an impact on the fair value disclosed. 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. 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 benchmarks rates utilised in the valuation of our debt and derivative portfolio (noting CPI inflation as an exception which was already 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.

22. Financial instruments (continued)

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 below:

22. Financial instruments (continued)

a) Market risk

i) Foreign currency

The group	Within one year m	Between one and five years m	Between five and 25 years m	Total m
At 31 March 2020				
Foreign currency borrowings				
Hedged item				
JPY	-	-	7,000.0	**7,000.0**
USD	-	947.0	203.0	**1,150.0**
Cross currency interest rate swap				
Cash flow hedge				
USD	-	(627.8)	(89.0)	**(716.8)**
Cross currency interest rate swap				
Fair value hedge				
JPY	-	-	(7,000.0)	**(7,000.0)**
USD	-	(319.2)	(114.0)	**(433.2)**
Net currency exposure	**-**	**-**	**-**	**-**
Weighted average spot rate				
JPY	-	-	137.6	
USD	-	1.6	1.4	
At 31 March 2019				
Foreign currency borrowings				
Hedged item				
JPY	5,000.0	-	-	5,000.0
USD	-	947.0	203.0	1,150.0
Cross currency interest rate swap				
Cash flow hedge				
JPY	-	(627.8)	(89.0)	(716.8)
Cross currency interest rate swap				
Fair value hedge				
JPY	(5,000.0)	-	-	(5,000.0)
USD	-	(319.2)	(114.0)	(433.2)
Net currency exposure	-	-	-	-
Weighted average spot rate				
JPY	199.4	-	-	
USD	-	1.6	1.4	

22. Financial instruments (continued)

a) Market risk (continued)

i) Foreign currency *(continued)*

Hedge ineffectiveness on currency hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Currency basis which forms part of the pricing of cross currency interest rate swaps is treated as a cost of hedging for all foreign currency hedge designations and as such is only a source of ineffectiveness where hedge accounting has been interrupted.

ii) Interest rate and inflation rate risk

The group’s policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at circa 50 per cent of 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:

The group	**Debt position £m**	**Swap impact £m**	**Post swap position £m**	**Effective interest rate %**
At 31 March 2020				
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
Leases	(31.0)	-	(31.0)	3.0
	(7,465.1)	**(72.8)**	**(7,537.9)**	
At 31 March 2019				
Fixed	(4,214.1)	915.6	(3,298.5)	4.9
Floating	(266.4)	(150.1)	(416.5)	2.6
Index-linked	(3,160.2)	(832.4)	(3,992.6)	5.9
	(7,640.7)	(66.9)	(7,707.6)	

22. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk *(continued)*

Where exposures arising out of debt issuances are swapped this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as detailed in the derivative financial instruments disclosure above. The table below includes all derivative transactions in order to provide a complete overview. Derivatives that do not qualify for hedge accounting are principally those relationships which swap debt into inflation.

The group	**Within one year £m**	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Mark to market £m**	**Interest rate average payable %**	**Interest rate average receivable %**
At 31 March 2020							
Interest rate swap							
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
Inflation swaps							
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
Cross currency swaps							
JPY	-	-	50.9	-	(4.5)	2.7	0.9
USD	-	600.6	144.3	-	233.2	3.2	4.6
Total	**-**	**1,657.3**	**2,137.6**	**824.2**	**(738.2)**		
At 31 March 2019							
Interest rate swap							
Floating to fixed rate	-	372.3	113.8	274.0	(179.1)	4.7	1.4
Floating from fixed rate	-	161.7	893.3	-	50.1	0.9	2.2
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(88.2)	3.7	2.4
Inflation swaps							
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
Cross currency swaps							
JPY	25.1	-	-	-	9.8	2.1	3.2
USD	-	600.6	144.3	-	145.3	3.3	4.6
Total	25.1	1,259.8	2,197.7	964.9	(779.5)		

22. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk *(continued)*

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:

The group	**2020 £m**	2019 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
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 one per cent change in RPI and a one 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.

22. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk (continued)

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:

The group	2020 £m	2019 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
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.

The group	2020 £m	2019 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
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.

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.

22. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk *(continued)*

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 that the group is exposed ends. 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.

The group	**Within one year MW**	**Between one and five years MW**	**Between five and 25 years MW**	**Mark to market £m**
At 31 March 2020				
Electricity swap	-	171.8	71.7	(4.6)
Total	**-**	**171.8**	**71.7**	**(4.6)**
At 31 March 2019				
Electricity swap	147.7	162.4	70.0	(1.0)
Total	147.7	162.4	70.0	(1.0)

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:

The group	**2020 £m**	2019 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
10% increase in original prices	**3.9**	7.6
10% decrease in original prices	**(3.9)**	(7.5)

10 per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

22. Financial instruments (continued)

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/AAAmmf or higher.

In the case of derivatives, the following table sets out the group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts that do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column 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.

The group	**Gross carrying amounts**	**Gross amounts offsets**	**Net amount presented in the balance sheet**	**Offsetting not presented in the balance sheet**	**Net amount**
	£m	**£m**	**£m**	**£m**	**£m**
At 31 March 2020					
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)**
At 31 March 2019					
Derivative financial assets	241.6	(25.7)	215.9	(93.4)	122.5
Derivative financial liabilities	(1,022.1)	25.7	(996.4)	93.4	(903.0)

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.

22. Financial instruments (continued)

b) Credit risk (continued)

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:

The group	2020 £m	2019 £m
Cash and cash equivalents	**866.7**	337.7
Trade and other receivables	**579.5**	530.0
Investments - cash deposits	**328.9**	299.5
Derivative financial assets	**334.6**	215.9

The company	2020 £m	2019 £m
Trade and other receivables	**548.0**	548.0

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.

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.

22. Financial instruments (continued)

d) Liquidity risk (continued)

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:

The group	2020 £m	2019 £m
Expires:		
Within one year	**450.0**	525.0
Between one and two years	**-**	100.0
Between two and five years	**250.0**	500.0
	700.0	1,125.0

The group's borrowing facilities of £1,050.0 million (2019: £1,125.0 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 £550.0 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; and a £125.0 million bank facility syndicated to certain banks, with National Westminster Bank Plc ("Natwest") acting as agent.

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:

The group	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2020					
Trade and other payables	(213.2)	-	-	-	**(213.2)**
Borrowings	(1,152.2)	(3,386.1)	(6,008.0)	(2,666.7)	**(13,213.0)**
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	(14.1)	(28.3)	(16.2)	-	**(58.6)**
	(1,436.9)	**(3,290.3)**	**(6,839.7)**	**(3,101.4)**	**(14,668.3)**
At 31 March 2019					
Trade and other payables	(207.2)	-	-	-	(207.2)
Borrowings	(404.4)	(3,344.7)	(5,939.8)	(3,243.5)	(12,932.4)
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	(6.5)	(14.8)	-	-	(21.3)
	(604.0)	(3,264.4)	(6,774.2)	(4,240.6)	(14,883.2)

23. Provisions

	Onerous leases £m	Business closures and disposals £m	Legal and other £m	Restructuring £m	Total £m
The group					
At 1 April 2019	8.1	0.6	5.2	-	**13.9**
Change in accounting policy - IFRS 16	(4.9)	-	-	-	**(4.9)**
At 1 April 2019 (under IFRS 16)	3.2	0.6	5.2	-	**9.0**
Additional provisions recognised	-	-	1.8	4.7	**6.5**
Unused amounts reversed	-	-	(1.2)	-	**(1.2)**
Unwinding of discount	0.1	-	-	-	**0.1**
Utilised in the year	(1.4)	(0.2)	(0.3)	-	**(1.9)**
At 31 March 2020	**1.9**	**0.4**	**5.5**	**4.7**	**12.5**

Maturity analysis of total provisions:

	2020 £m	2019 £m
Current	**6.6**	6.4
Non-current	**5.9**	7.5
	12.5	13.9

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next six years.

Business closure and disposal provisions relate to exit costs which are expected to crystallise over a period of one year.

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.

The restructuring provision of £4.7 million (2019: £nil) relates to costs associated with an organisational model review conducted at the end of the year.

The company

The company has no provisions for liabilities (2019: none).

24. Deferred tax

	Accelerated tax depreciation	Financial instruments	Retirement benefit obligation	Surplus ACT asset	Tax losses carried forward	Other	Total
	£m	£m	£m	£m	£m	£m	£m
The group							
At 1 April 2018	1,115.7	(168.0)	(1.0)	(46.7)	-	29.4	**929.4**
(Credited)/charged directly to income statement	(13.7)	(13.5)	2.9	-	-	(33.5)	**(57.8)**
Charged directly to other comprehensive income	-	6.5	(5.5)	-	-	-	**1.0**
Offset against corporation tax liability	-	-	-	46.7	-	-	**46.7**
At 31 March 2019	1,102.0	(175.0)	(3.6)	-	-	(4.1)	**919.3**
Charged/(credited) directly to income statement	154.9	(21.4)	7.7	-	(17.7)	(3.0)	**120.5**
Charged directly to other comprehensive income	-	3.1	17.9	-	-	-	**21.0**
At 31 March 2020	**1,256.9**	**(193.3)**	**22.0**	**-**	**(17.7)**	**(7.1)**	**1,060.8**

Deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The group has the following deferred tax assets that are not recognised in the financial statements:

	Group	
	2020	2019
	£m	£m
Corporate interest restrictions	**22.9**	11.9
Tax losses carried forward	**-**	0.8
	22.9	12.7

New legislation was introduced from April 2017, restricting the amount of interest that a company can offset against its tax liabilities in any year. Any amounts restricted are available to carry forward against future tax liabilities, so long as the company has the capacity to do so. The Directors believe it is uncertain that the group will have the capacity to utilise this disallowed interest, and therefore the group has not recognised a deferred tax asset in respect of these restrictions.

The company
The company has no deferred tax (2019: none).

25. Net retirement benefit surplus

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 AWGPS. Hartlepool Water Limited was acquired in July 1997, with 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.

The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan (‘MPLAP’). In addition, pensions in payment to a number of former employees are unfunded.

The administration and investment of the pension funds are maintained separately from the finances of the group.

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.

Contributions to MPLAP, including an allowance for expenses, were £8.9 million (2019: £6.0 million) during the year.

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, for MPLAP is 24 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.

The group also operates a number of defined contribution schemes in the UK, and contributions to these schemes amounted to £18.4 million (2019: £17.6 million).

25. Net retirement benefit surplus (continued)

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 [1]		
RPI	**2.6**	3.2
CPI	**1.9**	2.3
Longevity at age 65 for current pensioners		
Men	**22.5**	22.4
Women	**24.5**	22.5
Longevity at age 65 for future pensioners [2]		
Men	**23.8**	23.7
Women	**25.9**	25.7

[1] For RPI pension increases capped at 5 per cent per annum.

[2] The life expectancy shown for future pensioners is for those reaching 65 in 2040.

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**	**MPLAP £m**	**Unfunded pensions £m**	**Total £m**
At 31 March 2020						
Discount rate	+/-0.5% pa	-117/+135	-1/+1	-23/+25	-3/+3	-149/164
Rate of RPI inflation	+/-0.5% pa	+117/-106	+1/-1	+12/-10	+3/-3	+132/-120
Life expectancy	+/-0.5% pa	+48/-46	+1/-1	+8/-8	+1/-1	+58/-56

25. Net retirement benefit surplus (continued)

b) Sensitivity analysis (continued)

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.

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 benchmarks 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 £277 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.

25. Net retirement benefit surplus (continued)

Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the group’s contribution requirements. However, in this scenario the schemes’ investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

Price inflation

The majority of the schemes’ benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes’ assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

Life expectancy

The majority of the schemes’ obligations are to provide benefits for the life of the member and, as such, the schemes’ liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

25. Net retirement benefit surplus (continued)

d) Amounts recognised in comprehensive income

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
2020					
Amounts (charged)/credited to staff costs within operating profit:					
Past service cost	-	-	2.4	-	**2.4**
Administration expenses	-	-	(0.6)	-	**(0.6)**
Impact of restriction on surplus	-	-	(0.5)	-	**(0.5)**
Total operating charge	**-**	**-**	**1.3**	**-**	**1.3**
Amounts credited/(charged) to finance costs:					
Interest income on scheme assets	37.7	0.7	5.8	-	**44.2**
Interest cost on scheme liabilities	(36.4)	(0.5)	(6.1)	(1.0)	**(44.0)**
Net interest income/(expense)	**1.3**	**0.2**	**(0.3)**	**(1.0)**	**0.2**
Amounts credited/(charged) to the income statement	**1.3**	**0.2**	**1.0**	**(1.0)**	**1.5**
Amounts credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	(7.0)	0.7	(4.3)	-	**(10.6)**
Actuarial gains arising from:					
Changes in financial assumptions	115.1	1.0	9.2	2.4	**127.7**
Experience adjustments	-	-	3.9	-	**3.9**
Change arising from minimum funding requirement	-	-	(12.6)	-	**(12.6)**
Net credit to other comprehensive income	**108.1**	**1.7**	**(3.8)**	**2.4**	**108.4**
2019					
Amounts charged to staff costs within operating profit:					
Past service cost	(3.5)	-	-	-	(3.5)
Administration expenses	-	-	(0.4)	-	(0.4)
Total operating charge	(3.5)	-	(0.4)	-	(3.9)
Amounts credited/(charged) to finance costs:					
Interest income on scheme assets	41.4	0.6	6.0	-	48.0
Interest cost on scheme liabilities	(39.8)	(0.5)	(6.4)	(1.2)	(47.9)
Net interest income/(expense)	1.6	0.1	(0.4)	(1.2)	0.1
Amounts (charged)/credited to the income statement	(1.9)	0.1	(0.8)	(1.2)	(3.8)
Amounts (charged)/credited to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	29.3	0.5	11.1	-	40.9
Actuarial losses arising from:					
Changes in financial assumptions	(40.7)	(0.3)	(11.6)	-	(52.6)
Experience adjustments	(4.7)	-	(0.5)	(0.2)	(5.4)
Change arising from minimum funding requirement	-	-	(15.6)	-	(15.6)
Net (charge)/credit to other comprehensive income	(16.1)	0.2	(16.6)	(0.2)	(32.7)

25. Net retirement benefit surplus (continued)

e) Amounts recognised in the balance sheet

	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
2020					
Equities	19.1	0.2	60.6	-	**79.9**
Corporate bonds	1,033.4	-	35.9	-	**1,069.3**
Government bonds	424.7	24.3	76.9	-	**525.9**
Property	69.0	-	-	-	**69.0**
Alternatives	-	-	56.8	-	**56.8**
Other	9.2	-	6.6	-	**15.8**
Total assets	1,555.4	24.5	236.8	-	**1,816.7**
Present value of scheme liabilities	(1,381.9)	(16.0)	(232.7)	(41.6)	**(1,672.2)**
Liability arising from minimum funding requirement	-	-	(28.7)	-	**(28.7)**
Net pension surplus/(deficit)	**173.5**	**8.5**	**(24.6)**	**(41.6)**	**115.8**
Comprising:					
Pension schemes with a net surplus, included in non-current assets	173.5	8.5	-	-	**182.0**
Pension schemes with a net deficit, included in non-current liabilities	-	-	(24.6)	(41.6)	**(66.2)**
	173.5	**8.5**	**(24.6)**	**(41.6)**	**115.8**
2019					
Equities	79.6	0.3	30.4	-	110.3
Corporate bonds	1,046.7	-	29.4	-	1,076.1
Government bonds	408.1	24.7	97.2	-	530.0
Property	72.0	-	-	-	72.0
Alternatives	-	-	82.8	-	82.8
Other	16.4	0.1	1.3	-	17.8
Total assets	1,622.8	25.1	241.1	-	1,889.0
Present value of scheme liabilities	(1,573.8)	(18.5)	(256.2)	(45.8)	(1,894.3)
Liability arising from minimum funding requirement	-	-	(15.6)	-	(15.6)
Net pension surplus/(deficit)	49.0	6.6	(30.7)	(45.8)	(20.9)
Comprising:					
Pension schemes with a net surplus, included in non-current assets	49.0	6.6	-	-	55.6
Pension schemes with a net deficit, included in non-current liabilities	-	-	(30.7)	(45.8)	(76.5)
	49.0	6.6	(30.7)	(45.8)	(20.9)

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.

25. Net retirement benefit surplus (continued)

f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2018	1,632.0	27.3	236.0	-	**1,895.3**
Interest income on scheme assets	41.4	0.6	6.0	-	**48.0**
Administration costs	-	-	(0.4)	-	**(0.4)**
Employers' contributions	13.3	-	6.0	2.8	**22.1**
Benefits paid	(93.2)	(3.3)	(17.6)	(2.8)	**(116.9)**
Return on plan assets (excluding interest income)	29.3	0.5	11.1	-	**40.9**
At 31 March 2019	1,622.8	25.1	241.1	-	**1,889.0**
Interest income on scheme assets	37.7	0.7	5.8	-	**44.2**
Administration costs	-	-	(0.6)	-	**(0.6)**
Employers' contributions	15.1	-	8.9	2.8	**26.8**
Benefits paid	(113.2)	(2.0)	(14.1)	(2.8)	**(132.1)**
Return on plan assets (excluding interest income)	(7.0)	0.7	(4.3)	-	**(10.6)**
At 31 March 2020	**1,555.4**	**24.5**	**236.8**	**-**	**1,816.7**

g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2018	(1,578.2)	(21.0)	(255.4)	(47.2)	**(1,901.8)**
Past service cost	(3.5)	-	-	-	**(3.5)**
Interest cost on scheme liabilities	(39.8)	(0.5)	(6.4)	(1.2)	**(47.9)**
Benefits paid	93.2	3.3	17.6	2.8	**116.9**
Actuarial loss	(45.5)	(0.3)	(12.0)	(0.2)	**(58.0)**
At 31 March 2019	(1,573.8)	(18.5)	(256.2)	(45.8)	**(1,894.3)**
Past service cost	-	-	2.4	-	**2.4**
Interest cost on scheme liabilities	(36.4)	(0.5)	(6.1)	(1.0)	**(44.0)**
Benefits paid	113.2	2.0	14.1	2.8	**132.1**
Actuarial gain	115.1	1.0	13.1	2.4	**131.6**
At 31 March 2020	**(1,381.9)**	**(16.0)**	**(232.7)**	**(41.6)**	**(1,672.2)**

26. Stated capital

	Group and company	
	2020	2019
	£m	£m
Allotted, issued and fully paid		
14,843,754 A ordinary no par value shares	**-**	-
656,246 B ordinary no par value shares	**-**	-
109,631,487,794 redeemable preference no par value shares	**-**	-
	-	-

There were no movements in the number of shares allotted, issued and fully paid in either the current or preceding year.

The B ordinary shares rank pari passu in all respects with the A ordinary shares except that the holders of B ordinary shares shall not have a right to speak or vote at any general meetings or by written resolution in respect of their holdings of B ordinary shares in relation to the appointment or removal of Directors.

The holders of preference shares shall be entitled to receive any dividends resolved to be distributed pro rata to their holdings of preference shares. On a distribution of assets of the company among its members on a winding up or other return of capital (other than a redemption or purchase by the company of its own shares), the holders of the preference shares shall be entitled to receive in priority to any holder of any other class of shares, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. The preference shares are redeemable at the option of the company at a price to be determined by the Board of Directors. The preference shares do not carry any voting rights.

27. Hedging reserve

	Group 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)
At 31 March	**(52.3)**	(75.9)

Cost of hedging reserve

	Group 2020 £m	2019 £m
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)
At 31 March	**1.1**	2.0

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments, excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component.

The company
The company has no hedging reserve (2019: none).

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	Hedged ineffectiveness gain/(loss) £m	Total hedge reserve continuing £m	Total hedge reserve discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2020						
Cash flow hedge of interest rate risk	46.6	0.5	8.8	(72.5)	12.5	(51.2)
	46.6	**0.5**	**8.8**	**(72.5)**	**12.5**	**(51.2)**
At 31 March 2019						
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)

28. 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	
	2020	2019
	£m	£m
Property, plant and equipment	**48.5**	67.3
Intangible assets	**22.5**	26.6
	71.0	93.9

There were no capital commitments relating to the group's share of joint ventures.

The company
The company has no such commitments (2019: none).

29. 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
Operating lease commitments disclosed at 31 March 2019	
Within one year	**3.9**
Between one and five years	**13.4**
After five years	**20.7**
	38.0
Leases previously recognised within provisions	**8.1**
Additional leases recognised on transition	**0.2**
Undiscounted lease liability at 1 April 2019	**46.3**
Effect of discounting using incremental borrowing rate	**(11.3)**
Leases previously recognised as finance leases	**21.4**
Lease liability recognised at 1 April 2019	**56.4**
New leases recognised	**8.6**
Leases terminated	**(1.8)**
Interest expense	**0.7**
Undiscounted cash payments	**(14.2)**
Lease liability recognised at 31 March 2020	**49.7**
Of which are:	
Non-current	**38.2**
Current	**11.5**
	49.7

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 as lessor
The group leases out its investment properties. During the year to 31 March 2020 rental income of £1.2 million (2019: £0.8 million) was included within revenue.

30. Contingencies

The group has entered into a number of performance bonds and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. In addition, the group is party to indemnities in respect of its joint ventures (see note 16).

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 noted there, Anglian Water 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 provided to them should have been provided free of charge. Of the four groups, an amalgamation of two issued proceedings against all 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 in unlikely to succeed and in any event would not be material to the financial standing of the group.

As is normal for a group of this size and nature, it is subject to a number of other claims, disputes and litigation. The Directors consider that an appropriate position has been taken in reflecting such items in these financial statements.

31. Ultimate parent undertaking and controlling party

Anglian Water Group Limited, a limited liability company which is incorporated in Jersey but tax resident in the United Kingdom due to its business being centrally managed and controlled there, is the ultimate parent company of the group. 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'). First Sentier sold part of its holding to Infinity on 22 June 2018. Details of these holdings can be found on page 3.

The address of the principal place of business for Anglian Water Group Limited is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

32. 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.

IFRS 16 'Leases'

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 £2.2 million and increase depreciation and finance costs by £2.2 million and £0.5 million respectively. In addition, the group has applied IFRS 16.C8(c) in relation to impairment of right-of-use assets on transition at the initial date of application. As a transitional adjustment, this has resulted in reduced reserves of £2.2 million. This reduction is due to the different assumptions made in relation to future rental receipts compared to previous IAS 17 accounting.

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 2.3 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 requirements of the standard to leases where the term ends within 12 months of the date of initial application
- hindsight has been used in determining the lease term.

Reconciliation to March 2019 operating lease disclosure

	£m
Operating lease commitments disclosed at 31 March 2019	**38.0**
Leases previously recognised in provisions	**8.6**
Additional leases recognised on transition	**0.2**
Effect of discounting	**(11.3)**
Total	**35.5**

32. Impact of changes to accounting policies (continued)

Restatement of the balance sheet at 1 April 2019

	At 31 March 2019 £m	Impact of IFRS 16 £m	**At 1 April 2019 £m**
Non-current assets			
Goodwill	445.8	-	**445.8**
Other intangible assets	212.5	-	**212.5**
Property, plant and equipment	9,777.5	28.5	**9,806.0**
Investment properties	1.7	-	**1.7**
Investments in joint ventures	28.4	-	**28.4**
Derivative financial instruments	195.6	-	**195.6**
Retirement benefit surpluses	55.6	-	**55.6**
	10,717.1	28.5	**10,745.6**
Current assets			
Inventories	19.4	-	**19.4**
Trade and other receivables [1]	530.0	(1.4)	**528.6**
Current tax receivables	0.3	-	**0.3**
Investments - cash deposits	299.5	-	**299.5**
Cash and cash equivalents	337.7	-	**337.7**
Derivative financial instruments	20.3	-	**20.3**
	1,207.2	(1.4)	**1,205.8**
Total assets	11,924.3	27.1	**11,951.4**
Current liabilities			
Trade and other payables [2]	(507.0)	0.5	**(506.5)**
Borrowings	(341.9)	(34.8)	**(376.7)**
Derivative financial instruments	(16.0)	-	**(16.0)**
Provisions	(6.4)	-	**(6.4)**
	(871.3)	(34.3)	**(905.6)**
Net current assets	335.9	(35.7)	**300.2**
Non-current liabilities			
Borrowings	(7,695.0)	-	**(7,695.0)**
Derivative financial instruments	(980.4)	-	**(980.4)**
Deferred tax liabilities	(919.3)	-	**(919.3)**
Retirement benefit obligations	(76.5)	-	**(76.5)**
Provisions [3]	(7.5)	5.1	**(2.4)**
	(9,678.7)	5.1	**(9,673.6)**
Total liabilities	(10,550.0)	(29.2)	**(10,579.2)**
Net assets	1,374.3	(2.1)	**1,372.2**
Capital and reserves			
Stated capital	-	-	**-**
Share premium account	1,096.2	-	**1,096.2**
Retained earnings	351.0	(2.1)	**348.9**
Hedging reserve	(75.9)	-	**(75.9)**
Cost of hedging reserve	2.0	-	**2.0**
Translation reserve	1.0	-	**1.0**
Total equity	1,374.3	(2.1)	**1,372.2**

32. Impact of changes to accounting policies (continued)

(1) Adjustment in respect of pre-paid leases.

(2) Adjustment in respect of accruals relating to lease payments.

(3) Derecognition of onerous leases.

33. 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.

On 29 May 2018, a loan of £462.0 million, with a maturity date of 29 June 2021 and an interest rate of 5.5 per cent, was issued to the members of the consortium of investors owning Anglian Water Group Limited. At 31 March 2020, the amount outstanding was £489.7 million (2019: £462.0 million), with interest of £20.2 million (2019: £21.4 million) accrued but not paid. During the year, interest of £nil (2019: £18.6 million) was paid in respect of these loan notes.

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 2019, the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management (now First Sentier), one of the consortium of investors owning Anglian Water Group Limited, agreed to the extension of its participation in the £500 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 £8,750.

During the year to 31 March 2020 there were no other transactions (2019: none) with the shareholders.

b) Transactions with key management

Key management personnel comprise all the directors and members of the management board during the year.

A scheme is in place to encourage investment in the group by key management on an equivalent basis as the consortium of shareholders. During the year £nil (2019: £nil) was invested by key management, a return of £(0.7) million (2019: £0.5 million) was earned, and the group repaid £nil (2019: £nil) as part of this scheme. At 31 March 2020, £5.1 million (2019: £5.6 million) was loaned to the group by key management under this scheme. At the balance sheet date key management also held various bonds issued by the group totalling £1.8 million (2019: £2.2 million).

Remuneration of key management personnel

	2020	2019
	£m	£m
Short-term employee benefits	**5.8**	6.1
Post-employment benefits	**0.5**	0.6
Other long-term benefits	**1.0**	2.9
	7.3	9.6

33. Related party transactions (continued)

c) Transactions with joint ventures

The group's transactions with its joint ventures are summarised below.

During the year ended 31 March 2020, the group made sales on an arms-length basis of £224.2 million (2019: £229.9 million) to the Wave joint venture, and recognised management fee income of £nil (2019: £0.1 million) and interest receivable of £2.6 million (2019: £2.9 million). At 31 March 2020, the following amounts were due from the Wave joint venture:

- A £15.7 million 5.5 per cent medium-term loan repayable on 31 August 2027, or such other date as mutually agreed between the parties, included within investments in joint ventures;
- A £12.0 million 5.0 per cent preference loan repayable in five annual instalments of £4.0 million from August 2018, included within trade and other receivables;
- A £16.7 million loan at 12 month LIBOR plus 2.75 per cent with no fixed repayment date, included within trade and other receivables;
- A £6.3 million short-term working capital facility at one month LIBOR plus 2.75 per cent repayable on 30 June 2020, included within trade and other receivables;
- Accrued income of £18.2 million (2019: £18.6 million), and interest receivable of £1.4 million (2019: £1.6 million), included within trade and other receivables.

d) Parent company

The company's related party transactions are summarised below:

	2020	2019
	£m	£m
Loans and other borrowings due from Subsidiaries	**548.0**	548.0

34. 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.

35. Group undertakings

The group's subsidiary undertakings at 31 March 2020 are shown below. Unless otherwise disclosed, all subsidiary undertakings are incorporated in the UK, are 100 per cent owned, and with a share class of ordinary shares.

	Registered office	Percentage holding
Owned directly by Anglian Water Group Limited		
Osprey Holdco Limited	a	
All subsidiary undertakings		
Alexander Morrison Limited	b	
Alpheus Environmental Limited	a	
Ambury Developments Limited	a	
Anglian Venture Holdings Limited	a	
Anglian Water (Ireland) Limited	c	
Anglian Water (Osprey) Financing Plc	a	
Anglian Water Direct Limited	a	
Anglian Water Facilities Management Holdings (UK) Limited	a	
Anglian Water International Holdings Limited	a	
Anglian Water International Limited	a	
Anglian Water Services Financing Plc	a	
Anglian Water Services Holdings Limited	a	
Anglian Water Services Limited	a	
Anglian Water Services UK Parent Co Limited	a	
AW Creative Technologies Limited	a	
AW Licensing Limited	a	
AWG (UK) Holdings Limited	a	
AWG Business Centres Limited	a	
AWG C4 Limited	a	
AWG Central Services Limited	a	
AWG Group Limited	a	
AWG Holdings Limited	e	
AWG Land Holdings Limited	a	
AWG Land Investments Limited	b	
AWG Outlet Centers Limited	b	
AWG Parent Co Limited	a	
AWG Property Developments (Ireland) Limited	e	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Rail Services (formerly Wave Environmental Limited)	a	
AWG Residential Limited	b	
AWG Shelf 11 Limited	b	
AWG Utilities Limited	a	
Cambuslang Retail Portfolio Limited	b	
Celtic Anglian Water Limited	c	
Chester (1995) Limited	a	97%
CS Amenities Limited	a	
CS Management Company (2002) Limited	a	
CWRP Relocation Limited	a	
DMWS 819 Limited	b	
DMWS 822 Limited	b	
DMWS 823 Limited	b	
DMWS 824 LLP (1)	b	
Eastland Developments Limited	a	
Edmund Homes Limited	a	

35. Group undertakings (continued)

	Registered office	Percentage holding
All subsidiary undertakings (continued)		
Farm Gas Limited	a	
Graham Street Airdrie Retail Portfolio Limited	b	
H2GO Limited	a	
Macrocom (743) Limited	b	
Morco (8) Limited (formerly Wave Utilities Limited)	b	
Morco 2 Limited (formerly Wave Water Limited)	b	
Morrison (Oldco) Limited (formerly Wave Holdings Limited)	b	
Morrison Glosha Limited	b	
Morrison Holdings Limited	a	
Morrison International Developments Limited	b	
Morrison International Limited	b	
Morrison Leneghan Irl Limited	f	60%
Morrison Limited	a	
Morrison Properties Limited	b	
Morrison Property Investments Limited	b	
Morrison Residential Properties Limited	b	
Morrison Shand Construction Limited	a	
NVB Rathdowney Limited	g	
OHL Land Holdings Limited	a	
OHL Property Holdings Limited	a	
Osprey Acquisitions Limited	a	
Osprey Holdco Limited	a	
Rutland Insurance Limited	h	
Shand Construction Limited	a	
Shawlands Developments (1)	b	
Tide Services Limited	a	
Valuetype Limited	a	
Wave Environmental Limited (formerly Morrison Biggs Wall Limited)	a	
Wave Holdings Limited (formerly Morco (3) Limited)	b	
Wave Utilities Limited (formerly Morrison Lema Homes Limited)	b	
Wave Water Limited (formerly Anglian Water Overseas Holdings Limited)	a	

35. Group undertakings (continued)

	Registered office	Percentage holding
Joint ventures		
124 St Vincent Street (Glasgow) LLP (1) (2)	i	50%
Anglian Water Business (National) Limited	j	50%
AWG Mitchell Investments (Tannochside) Limited (3)	b	50%
AWG Outlets (Rathdowney) Limited	e	50%
Castlemilk Retail LLP (1) (2)	i	50%
City Road Properties (Chester) Limited	a	50%
Crowwood Grange Estates Limited	b	50%
Excel Centre Aberdeen Limited (2)	i	50%
Gwent Euro Park Management Company Limited	a	42%
Hollowstone Limited	a	50%
Kings Waterfront Properties Limited	a	50%
Leith Walk Properties Limited (2)	i	50%
Morrison Gwent Limited	a	50%
Morrison Residential Properties Limited	b	50%
NWG Business Limited	j	50%
Ocean Point Developments Limited (2)	i	50%
Palacecraig Street Coatbridge Limited (2)	i	50%
Rathdowney Shopping Centre Management Company Limited	e	50%
Spreevale Limited	k	50%
Wave Ltd	j	50%

(1) The principal place of business of these companies is the same as the registered office address.

(2) In administration.

(3) This company was dissolved on 8 May 2018.

Registered offices

a) Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU, United Kingdom.
b) 15 Atholl Crescent, Edinburgh, EH3 8HA, United Kingdom.
c) Suite 8, Northwood House, Northwood Business Campus, Santry, Dublin 9, Ireland.
d) Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey, Channel Islands.
e) 1 Stokes Place, St Stephens Green, Dublin 2, Ireland.
f) 6th Floor, Southbank House, Barrow Street, Dublin 4, Ireland.
g) Rathdowney Shopping Outlet, Johnston Road, Rathdowney, Co Laois, Ireland.
h) PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey, Channel Islands.
i) Moorfields, 101 Rose Street, South Lane, Edinburgh, EH2 3JG, United Kingdom.
j) Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, United Kingdom.
k) 15 Clanwilliam Terrace, Dublin 2, Ireland.

For all companies, the registered office is located in the country of incorporation.

Under section 479C of the Companies Act 2006, Osprey Holdco Limited gives a parent company guarantee in respect of all outstanding as at 31 March 2020, until the liabilities are satisfied in full, for the following subsidiary companies. Under section 479A of the Companies Act 2006, the following subsidiaries are therefore exempt from the requirements relating to the audit of individual accounts.

35. Group undertakings (continued)

Subsidiary undertakings guaranteed by Osprey Holdco Limited	
Alexander Morrison Limited	SC038867
Alpheus Environmental Limited	02499491
Ambury Developments Limited	01473903
Anglian Venture Holdings Limited	06426222
Anglian Water Direct Limited	03306995
Anglian Water International Holdings Limited	02024769
Anglian Water International Limited	02729389
AW Creative Technologies Limited	03286074
AW Licensing Limited	03023087
AWG (UK) Holdings Limited	05441805
AWG Business Centres Limited	05844645
AWG Central Services Limited	04172712
AWG Group Limited	02366618
AWG Land Holdings Limited	04530863
AWG Parent Co Limited	03936645
AWG Property Limited	SC067190
AWG Residential Limited	SC082292
AWG Shelf 11 Limited	SC115080
AWG Utilities Limited	10177651
CWRP Relocation Limited	12219644
Graham Street Airdrie Retail Portfolio Limited	SC271032
Macrocom (743) Limited	SC228103
Morrison International Limited	SC120552
Morrison Limited	04700725
Tide Services Limited	11145202
Valuetype Limited	02559548
Wave Water Limited	02702745

Independent auditor's report to the members of Anglian Water Group Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Anglian Water Group Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB); and
- have been properly prepared in accordance the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor’s report to the members of Anglian Water Group Limited (continued)

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and 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.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the statement of directors’ responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception
Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Anglian Water Group Limited (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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
For and on behalf of Deloitte LLP
London, United Kingdom

10 July 2020