

ANGLIAN WATER SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2016

(Registered number 02366656)



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REPORT

The Queen's Awards for Enterprise: Sustainable Development 2015. This Award was made to Anglian Water Services Limited in April 2015 for embedding sustainability throughout its operations.

WE AIM TO BE THE LEADING CUSTOMER SERVICE BUSINESS IN THE UK. WE WILL ACHIEVE THIS BY ENGAGING WITH CUSTOMERS, BASING OUR APPROACH ON THEIR EXPECTATION OF EXCELLENT SERVICE AND MEASURING OUR PERFORMANCE AGAINST THE OUTCOMES THEY WANT TO SEE. WE WILL PROVIDE THE VITAL SERVICES THAT HELP THE ECONOMY, THE ENVIRONMENT AND COMMUNITIES TO THRIVE.

Anglian Water is the largest water and wastewater company in England and Wales by geographic area. We employ 4,190 people and supply water and water recycling services to more than six million domestic and business customers in the **EAST OF ENGLAND** and **HARTLEPOOL**.

CREATING VALUE FOR OUR CUSTOMERS

In the five years to 2020

£5bn

COMBINED OPERATIONAL AND CAPITAL INVESTMENT

172 Ml/d

OUR TARGET AS WE WORK TO REDUCE LEAKAGE FURTHER BY 2020

60%

THE REDUCTION WE WANT TO ACHIEVE IN CAPITAL CARBON BY 2020 FROM A 2010 BASELINE

In 2015/16

£0.8bn

COMBINED CAPITAL AND OPERATIONAL INVESTMENT

183 Ml/d

LEAKAGE AT HISTORICALLY LOW LEVELS

53%

REDUCTION IN CAPITAL CARBON FROM A 2010 BASELINE

WHAT WE DO

At its most basic, our business is founded on water and on the water cycle, of which our operation is part.

In this way and starting with the most basic and vital of natural resources, our business underpins the health and well-being of our customers, supports growth and prosperity in our region and helps future-proof it against the challenges of climate change and a growing population.

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

We invest in efficient, low carbon assets and processes - this reduces our carbon footprint and our costs.

2

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

3

The sewage arriving at our Water Recycling Centres is turned into renewable energy and biosolids for agriculture, helping address society's growing demand for food and power as well as water.

WE TREAT THAT WATER AND SUPPLY IT TO HOMES, BUSINESSES AND INDUSTRY.

We help and encourage our customers to use less water, which leaves more in the environment and delays the need to build costly new resources.

RESILIENT ECONOMY

OUR SERVICES ENABLE ECONOMIC GROWTH.

Without safe, secure water supplies there can be no new jobs and homes. We work closely with local authorities, Local Enterprise Partnerships and key developers to ensure our strategic plans align and that we can play our part in creating a thriving and resilient economy.

RESILIENT COMMUNITIES

WE WANT TO HELP OUR CUSTOMERS UNDERSTAND THEIR ROLE IN THE WATER CYCLE;

that how they use water and what they place into the sewers can affect our services and the environment. We will help people to use water efficiently and keep our sewers running clear, keeping bills down and supporting a resilient service.

RESILIENT ENVIRONMENT

THE WATER IN OUR REGION IS A SHARED RESOURCE. IT UNDERPINS A **HEALTHY** ENVIRONMENT,

as well as a strong economy; it is used by the region's farmers to grow much of the UK's food and is important for tourism and for leisure. To help manage this balance we have established the Water Resource East project to look at long-term needs with all the stakeholders involved.

HOW WE ADD VALUE

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

OUR KEY RESOURCES

OUR PEOPLE

Our employees, suppliers and their know-how

FINANCIAL

Capital, revenue and profits invested in our business

RAW WATER

Taken from rivers and aquifers for treatment and supply

USED WATER

Collected, treated and returned to the water cycle

OUR LAND

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

MANUFACTURED RESOURCES

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

HOW WE ADD VALUE

OUR LOVE EVERY DROP CULTURE

Embedding sustainability at the core of our business

COLLABORATIONS

With suppliers, academics, the public and private sectors to deliver transformational change

INNOVATION AND THOUGHT LEADERSHIP

From low carbon technology to behavioural change

STRATEGIC FUTURE PLANNING

Scenario planning, climate and growth projections, customer insight

BUILDING AND MANAGING ASSETS

That are efficient, reliable and resilient

EXTERNAL PRESSURES

Our business model is designed to take into account external pressures and the material issues that our stakeholders are most concerned about. These are derived from consultation with customers through the engagement forum.

GROWTH

27%

more properties supplied since 1989

CLIMATE CHANGE

14%

potential reduction in water available to us by 2040

OUR CULTURE

→ P14 More about our culture

Our approach is that in any business situation we can **INNOVATE** and **COLLABORATE** to **TRANSFORM** the end result.

WHAT WE CREATE

SAFE, CLEAN DRINKING WATER
99.97% COMPLIANCE FOR WATER QUALITY
 READ MORE ON PAGE 31

ENERGY
112GWh GENERATED
 READ MORE ON PAGE 50

WATER FOR INDUSTRY
 PREPARING FOR COMPETITION
 READ MORE ON PAGE 39

SKILLS, JOBS AND GROWTH
 LEAD SPONSOR OF GREATER PETERBOROUGH UNIVERSITY TECHNICAL COLLEGE
 READ MORE ON PAGE 24

RECYCLED WATER FOR THE ENVIRONMENT
34 EXCELLENT BATHING WATERS
 READ MORE ON PAGE 45

BIOSOLIDS
 DEVELOPED THE BIOSOLIDS ASSURANCE SCHEME FOR AGRICULTURE
 READ MORE ON PAGE 51

OUR 10 OUTCOMES

Our business model is structured to achieve 10 added value outcomes for our customers and the environment.

→ P22 The year in review

OUR CONTRIBUTION TO SOCIETY

FLOURISHING ENVIRONMENT	98.9%	SSSIs in favourable condition	CARING FOR COMMUNITIES	260,000+	people seen in last seven years
INVESTING FOR TOMORROW	£8.4m	partnership funding for flood protection in AMP6	FAIR CHARGES	79%	paying by a meter

WHAT MATTERS MOST TO OUR CUSTOMERS?

Our Business Plan for AMP6 was informed by the results of our biggest ever, region-wide consultation on the future of water and water recycling services. We heard the views of 50,000 customers through face-to-face meetings, surveys, roadshows, workshops and focus groups. This is what they told us:

Reports of service problems are rare. When they do occur, they tend to relate to leaks, interruption to supply, taste, odour or colour of water. Flooding from sewers, while rare, is a particularly serious failure

Most people told us they are satisfied with their water and water recycling service, and that continuing to deliver this service to a high standard is a priority. Most of those asked said they would rather keep the same level of service as now, than have a lower bill with a reduced standard of service

Most customers think metering is the fairest way to charge for water but do not want us to force people to switch to a meter

CUSTOMER ENGAGEMENT FORUM

The independent Customer Engagement Forum (CEF) was established to represent the interests of customers, communities, the economy and the environment in the development of our Business Plan. Together, the consultation process and the CEF helped us to decide on the most material issues facing the Company and which we need to address over the Asset Management Period (AMP).

We have asked the CEF to continue meeting, consulting and acting as a body that will review and assess the delivery of the Plan over the next five years. That role includes advising and challenging the Company on how it engages with customers and how customer views are reflected in the delivery of the Plan.

Many people asked why more money could not come from profits or more efficient ways of working than expecting customers to pay more

Most people recognise the increasing pressures faced by our region from growth and climate change, and want to know that we are planning ahead and taking action

Leaks are a particular concern. People do not like to see water wasted, and they want us to play our part to conserve water

We heard mixed views about the environment. Some people want us to do more than we are obliged to do by law, while others prefer us to concentrate on providing clean, safe drinking water and on water recycling. There was strongest support for going beyond the minimum standards required by law where there were economic benefits for local people without a big impact on bills.

OUR MATERIAL ISSUES

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

PROVIDING SAFE, CLEAN AND RELIABLE WATER

BILLS, AFFORDABILITY AND PROFITS

LEAKAGE

RESILIENCE AND FUTURE CHALLENGES

PROTECTING THE ENVIRONMENT

WHAT WE'RE TRYING TO ACHIEVE

OUR 10 OUTCOMES

These are the 10 outcomes we want to achieve for our customers and the environment.

→ P22 The year in review



WHAT AFFECTS US?

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

POPULATION GROWTH

We supply water to approximately two million households, an increase of 27 per cent since the water industry was privatised in 1989.

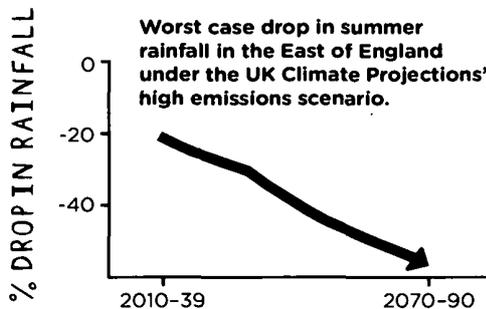


Despite this, the total amount of water we supply each day is now slightly less. This is due in large part to long-term reductions in leakage, to the increasing proportion of customers on a water meter and to our installation of water efficiency devices in people's homes.

Our region's population may increase by as much as one million by 2040, increasing demand by 13 per cent. Reducing leakage and using water more efficiently are things that customers expect us to do to maintain the future balance between supply and demand, and we will continue to focus on these areas over the next five years.

CLIMATE CHANGE

The Anglian region is the driest in the UK, with average annual rainfall approximately 71 per cent of the long-term average for England.



Climate change threatens to reduce that further, while rising sea levels and extreme storms could threaten low-lying sites. In response, we continue to invest in new water resources and to improve the efficiency and connectivity of our network.

We are also investing in flood defences at vulnerable sites and working to reduce our own impact on climate change through reducing our carbon footprint and increasing the amount of renewable energy generated on our sites.

CUSTOMER EXPECTATIONS

Customer expectations have been transformed in recent years, a change accelerated by the rise of social media.

IN 2015, 76% OF ADULTS BOUGHT GOODS OR SERVICES ONLINE, UP FROM 53% IN 2008

Customers now demand faster, easier, round-the-clock interaction and digital technology gives them a much more active role in the conversation. They compare our service with that of the top UK brands and they expect us to be as good, if not better. At the same time, our performance is linked to

millions of pounds in either penalty or reward under the new system of Outcome Delivery Incentives (ODIs), with some of the largest potential penalties attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies.

INCREASED COMPETITION

From April 2017, all non-household customers will be able to choose their water and/or water recycling retailer.

Our non-household retail arm, Anglian Water Business, will become a separate company, with Anglian Water Services remaining the wholesaler, supplying services to retailers who wish to serve non-domestic customers in our region. We are developing a Wholesale Service Centre, which will be the single point of contact for all the retailers operating in our region.

In addition, the UK Government has asked Ofwat to conduct a cost-benefit analysis of extending retail competition in water to households. Ofwat's assessment is due this summer.

The Government and Ofwat have also indicated further market and regulatory reform is likely in future, including in upstream markets, sludge treatment and the provision of new water resources.

SKILLS GAP

We need to ensure we have enough qualified and competent employees. A significant number of our most experienced employees are due to retire within the next decade.

We are taking steps to recruit and develop our existing workforce so we can continue to provide excellent services, build and maintain our assets, and meet the expectations of our customers and regulators.

Our industry-leading Licence to Operate programme ensures high standards of training for existing technicians and new starters,

while our apprenticeship and graduate programmes recruit to fill skills gaps, retirement profiles and management positions. Our leading role in the establishment of the Greater Peterborough University Technical College and work with the College of West Anglia also help to create a high level of technical talent in the region as a pipeline into our industry.

THE UK NEEDS
100,000 NEW,
TRAINED
ENGINEERING/
CONSTRUCTION
WORKERS BY 2020

REGULATION

Ofwat is our economic regulator. It controls how much we can charge customers and we have worked closely with Ofwat in producing our Business Plan for 2015-2020.

In its Final Determination in December 2014, Ofwat agreed with almost everything proposed, allowing us to deliver on the priorities agreed with our customers.

The **Environment Agency** controls the amount of water we are allowed to take from the environment and the quality of the water we return to it.

It has been closely involved in the development of our Water Resource Management Plan and in the thought leadership work on 21st century water supply through the Cambridge Institute for Sustainability Leadership.

The **Drinking Water Inspectorate** ensures the quality of water we supply to our customers.

CHAIRMAN'S WELCOME

“BY SEEING CHANGE AND CHALLENGE AS AN OPPORTUNITY RATHER THAN A THREAT, OUR MANAGEMENT TEAM HAS BEEN ABLE TO DRIVE REAL INNOVATION...”

STEPHEN BILLINGHAM

We began AMP6 by giving our customers the biggest reduction in bills of all the water and sewerage companies in the UK. The resulting loss in revenue was then combined with a challenging AMP6 financial determination, the need to meet stretching Outcome Delivery Incentives (ODIs) and unfunded cost pressures. The combination of these factors could have resulted in a tough year for us.

However, we have risen to this challenge. We have exceeded our targets in a number of key areas, most notably our new ODI targets.

This achievement is all the more remarkable when considered in the wider environment in which we operate. It continues to be a time of change for the water industry. New forms of regulation, continuing preparations for non-household competition, the continuing revolution in technology and customer expectations, and the pressures of population growth and climate change are creating a dynamic environment in which the industry has to operate and adapt.

We have taken a leading role in addressing many of these challenges nationally and regionally, shaping the response of the industry to the growing expectations of customers, regulators and policy makers.

One of the most notable and rewarding areas of work has been how we have fostered multi-sector collaboration and planning around the long-term resilience of water supplies, at both a regional and a national level.

Our region is one of the driest in the UK, leading us to innovate to balance the needs of its increasing population with those of its growing and diverse world-leading businesses, including the hugely important agricultural sector, and the natural environment.

This is why we have broadened our collaborations with many leading UK companies to put water at the heart of a ‘whole new way of living’, through our Love Every Drop strategy. The experience and expertise we have gained in the delivery of this strategy has allowed us to take a central role in this important area of public policy.

By seeing change and challenge as an opportunity rather than a threat, our management team has been able to drive real innovation in the way Anglian Water delivers its services and maintains customer and investor confidence.

Our culture of collaboration, innovation and transformation continues to prove itself, achieving the strong operational performance and financial results detailed in this report.

The Board continues to support the management team in its work to live up to the characteristics that were so highly praised when we received the Queen’s Award for Enterprise for Sustainable Development. This award is one that we hold with justifiable pride and that leaves us with confidence in the future.

We have a great team at Anglian Water and my thanks goes to all our staff and our alliance partners for the hard work and great results produced this past year.

Stephen Billingham
Chairman



CHIEF EXECUTIVE'S STATEMENT

“ALL OUR ODIs HAVE MET THEIR BASE TARGETS FOR THE YEAR, WITH THREE ACHIEVING MAXIMUM - OR CLOSE TO MAXIMUM - REWARD...”

PETER SIMPSON

We started this new AMP having committed to the biggest drop in charges of any water and sewerage company. The efficiencies we made in AMP5 allowed us to pass some of those savings back to customers, reducing household bills by around seven per cent in real terms in 2015/16.

Despite the resulting fall in revenue, we have made a strong start to AMP6, facing up to a whole new set of challenges and to a particularly challenging determination following PR14.

For the first time our performance has been measured against a set of stretching Outcome Delivery Incentives (ODIs), with good performance incentivised and rewarded, while poor performance brings significant penalties. Add to this the challenges posed by growing customer expectations, SIM targets, complex regulatory outputs and the need to absorb unfunded cost pressures, and it is particularly pleasing to be able to report on such a strong performance.

All our ODIs have met their base targets for the year, with three achieving maximum - or close to maximum - reward for exceptionally strong performance. Leakage from our water mains is at its lowest ever level, as are the number of pollutions from our sewer network. We have also seen fantastic performance on interruptions to supply, with a big fall in the average time people are without water in the event of a burst main or other problem.

In addition, we have successfully completed several notable and complex projects within the business. For instance, we've replaced our telemetry system, one of the largest in Europe, with a new system that allows us the most complete oversight of asset performance we have ever achieved.

This success has not come easily. In the wake of our challenging AMP6 determination, it has only been achieved through the hard work of our employees and the continuing success of our public engagement, through a determined focus on putting customers first and on better, more efficient ways of working. This has been driven by a step change in performance across the organisation.

The result is not only lower bills, but a better service for customers, too. This is what the ODIs are set up to ensure: that we deliver on the 10 outcomes we agreed with customers, for the environment, the economy and the communities we serve, which form the backbone of our Business Plan for AMP6.

Our performance was also helped by a relatively mild winter, and we have used the opportunity that gave us to create a buffer against potentially tougher years later in AMP6.

Ever improving service is also vital in the face of constantly increasing customer expectations. Our customers rightly compare the service we provide with that of the top UK brands. The continuing rise of social media gives them more ways to initiate and drive conversations with us.

The year saw the formation of a dedicated Digital Customer Service Team to make sure we are meeting those expectations, while we continue to innovate and improve our processes to keep pace with the advancing frontier of excellence in customer service. Customers and improving customer satisfaction remain firmly at the heart of our operation. We have already begun to engage them in what will be ongoing conversations ahead of the next price review in 2019.

Improved performance also demonstrates a more efficient, flexible and responsive business; one that can deal with additional, unfunded costs such as adoption of private sewerage pumping stations this autumn, without the need to increase customer bills. Bills will remain flat, excluding inflation, to 2020. This year's improvements in performance have been achieved despite the fall in revenue that followed this reduction.

In the coming year we will continue to drive efficiency across the business, recognising the importance of relative efficiency in the way the industry will be judged. This will also be helped by our unique approach to the provision of our maintenance and capital programme, delivered through four alliances with our main contractors, which could last for up to 15 years.

This was the first year of the new arrangement and we are already seeing benefits. One example is the Wave programme, which combines our water metering and water efficiency programmes in targeted geographical areas. This allows these complementary programmes to be delivered more efficiently and provides greater opportunities for public engagement on a range of issues.

The alliances underpin our increasingly collaborative approach to dealing with the challenges we face, which include a growing population and a changing climate, as well as the most significant set of changes to the industry since privatisation more than two decades ago.

We continue to innovate and improve our processes to keep pace with the advancing frontier of excellence in customer service.

Significant progress has been made this year in our preparation for non-household competition, and we enter the final few months before the introduction of non-household competition with confidence in both our retail and wholesale operations.

Many of the challenges we face cannot be met without collaboration, not just between ourselves and our partners, but across all sectors of society. True to our Love Every Drop strategy we are leading the debate on how to address them. We know water and the reliable provision of our services supports the sustainable growth and the healthy, thriving economy we want to see.

So we are leading an initiative to develop a long-term, nationwide strategy for resilient water supplies and at the same time establishing Water Resources East, an innovative, multi-sector programme that will determine the most appropriate way to meet our region's future water needs.

The need to maintain a reliable supply of engineers and technicians for the future is another looming challenge, and again we are taking the lead in addressing it. We have become the lead employer sponsor for the new Greater Peterborough University Technical College, helping to shape its curriculum and provide a route into our industry for the best and brightest young people in our region. At the same time, we, and our alliance partners, are sponsoring two-year BTEC courses at the College of West Anglia in Wisbech, which will help us find the mechanical and electrical engineers and construction workers of the future.

Our colleagues remain our most valued asset and we are delighted to report another year of excellent progress against our appropriately tough health and safety targets. Our accident frequency rate is again at its best ever level, with comparable performance across our alliances too. We continue to invest in our employees and the systems they rely on to do their jobs, to protect them, our customers and the environment. We firmly believe that nothing is so important that we cannot take the time to do it safely.

In the coming year our focus will remain on maintaining and improving business performance, while continuing to influence national policy in support of the case for building long-term resilience in the run up to PR19, planning for which is already underway.

I am hugely encouraged by the way we have responded to what could have been a difficult year; by the superb performance of teams right across the business and our new alliances. I thank them for their efforts and I am confident that we remain well placed to deal with and influence challenges as they arise.

Peter Simpson
Chief Executive



OUR STRATEGY

OUTCOMES

A strategy for today and tomorrow

In 2010, at the beginning of the AMP5 period (2010-15), we saw the need for a new kind of strategy to reshape our business for a fast-changing world. It needed to have a global perspective, and to place communities, the environment and the economy at the heart of our thinking and planning.

We called this new strategy Love Every Drop. Out went traditional, introverted and incremental ways of managing our business. In came a set of bold and far-reaching goals.

Love Every Drop embraces activities and campaigns that involve everyone, including customers, stakeholders, community leaders and young people. In the past five years, it has fundamentally changed how we operate.

It has raised the profile of water with decision makers and enabled us to set even higher standards for our own performance. At the same time, it has helped our customers to better recognise the true value of water and how it supports a growing economy, a flourishing environment and vibrant communities.

A plan for customers, economy and environment

Our Business Plan for AMP6 was written on the back of our largest ever customer consultation. It is based on 10 outcomes that address the issues that matter most to our customers, and that deliver for them, the region and the environment.

The Love Every Drop goals we have set will guide us in delivering these outcomes, while our culture of Innovation, Collaboration and Transformation provides the solid foundation on which we will build.

We will publicly report on our performance towards delivering these outcomes through our ODIs.

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

We must continue to deliver these fundamentals safely, avoiding harm to ourselves, others and the environment. But we will do so much more. The world around us is changing, and we must too. Our Plan will drive the business forward, keeping a firm grip on the leading position we have worked so hard to achieve in the past decade.

These are the 10 outcomes we have developed with customers, our Board and our Customer Engagement Forum. They support customers, the environment, local communities and the economy. The outcomes are, in essence, the future our customers have told us we need to work towards.

Measuring our performance

Our ODIs will be the measure of how well we are performing against the outcomes we have promised. We have the opportunity to earn a reward, or pay a penalty, depending on how we perform.

OUR CULTURE

Innovation, Collaboration, Transformation

These are the bedrock of our business. They are the behaviours we and our partners need to exhibit - the ways we need to work - to achieve our goals. They will help us become a better business, driving improved performance in everything we do.

INNOVATION

Setting tough goals to encourage step changes, being open to new ideas and innovative thinking.

COLLABORATION

Working with others, inspiring them to take positive steps towards achieving our vision of a sustainable future, creating stronger cross-company working.

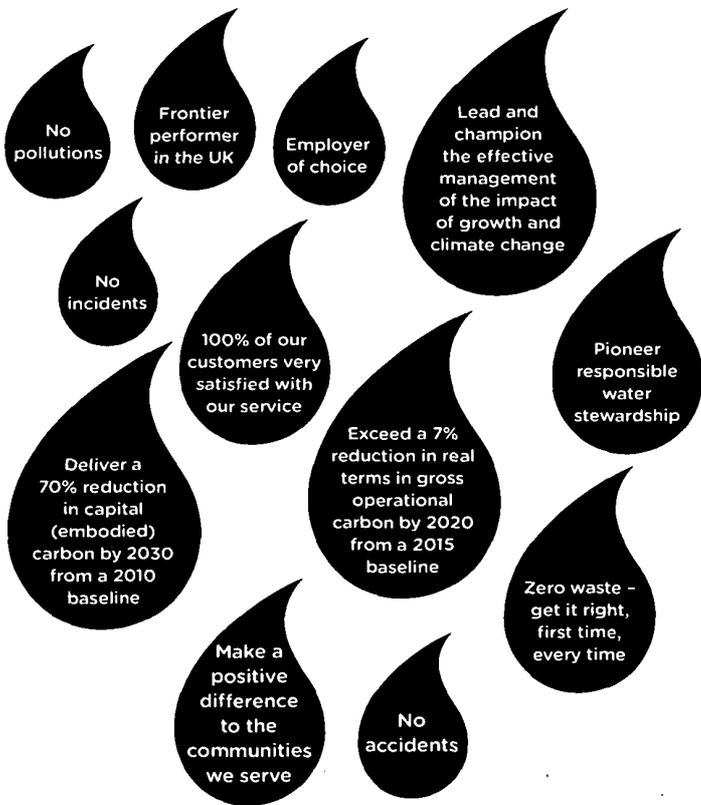
TRANSFORMATION

Transforming the way we work and focusing on outcomes, to remain a successful business.

These are the 12 far-reaching and audacious goals we have set internally. They focus our strategy and our business.

We hold ourselves accountable against them. Our goals underpin the Love Every Drop strategy, which aims to put water at the heart of a whole new way of living.

GOALS



OUTCOMES

GOALS

OUR CULTURE

HOW WE ARE STRUCTURED

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

Ownership and company structure

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

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

Our corporate structure

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

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

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group.

Origin: **Australia**

32.3%

The Canada Pension Plan (CPP) Investment Board is managed independently of the Canada Pension Plan by experienced investment professionals to help sustain the future pensions of 18 million Canadians.

Origin: **Canada**

32.9%

OWNERSHIP

19.8%

15.0%

IFM Investors is a global asset manager owned by 29 Australian pension funds, specialising in infrastructure, private equity, debt investment and listed equity.

Origin: **Australia**

3i is an international investor focusing on private equity, infrastructure and debt management.

Origin: **UK**

Anglian Water Services
Financing Group (AWSFG)

▼ Direct subsidiary



AWG Parent Co Ltd, AWG Holdings Ltd, AWG (UK) Holdings Ltd and AWG Group Ltd 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 Ltd is Jersey registered and Irish tax resident.

Anglian Water Services Holdings Ltd 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 Overseas Holdings Ltd is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. It was set up as a Cayman Islands registered company to facilitate the ring-fenced structure in 2002, but subsequent changes to UK legislation mean we wouldn't need to set up an overseas company if we were to do the same again. Despite being registered overseas, this company is UK tax resident, and therefore does not (and never has) benefited from any tax advantage. The company is no longer needed in the group structure, but the administrative cost of removing it would be significant.

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

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

WHO LEADS US?

ANGLIAN WATER SERVICES BOARD OF DIRECTORS

EXECUTIVE DIRECTORS (l-r)

Scott Longhurst

Managing Director, Finance and Non-Regulated Business

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

Peter Simpson

Chief Executive Officer AWG
Appointed to the Board of Anglian Water Services Limited in November 2004.

Appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013.

Jean Spencer

Director of Regulation
Appointed in May 2004.

Chris Newsome

Director of Asset Management
Appointed in September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS (l-r)

John Hirst, CBE

Appointed to the Board and as Chairman of the Audit Committee in April 2015. He became Senior Independent Non-Executive Director in January 2016.

A N R

Stephen Billingham

Chairman of the Board
Appointed to the Board in November 2014, and became Chairman of AWS and AWG on 1 April 2015. He became Chairman of the Nomination Committee on the same date.

A N R

Steve Good

Appointed in April 2015.

A N R

Polly Courtice, LVO

Appointed in April 2015.

N R

Paul Whittaker

Appointed to the Board in October 2013 and became Chairman of the Remuneration Committee on 21 January 2015.

N R

➔ P87 See full biographies in the Corporate Governance section

KEY

A Audit Committee

N Nomination Committee

R Remuneration Committee

NON-EXECUTIVE DIRECTORS (I-R)

James Bryce

Appointed in December 2014.

N R

Andrew Cox

Appointed in April 2014.

N R

Werner Kerschl

Appointed in November 2015.

Niall Mills

Appointed in April 2014.

N R

ANGLIAN WATER SERVICES MANAGEMENT BOARD

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

Peter Simpson Chief Executive Officer

Scott Longhurst Managing Director,
Finance and Non-Regulated Business

Jean Spencer Director of Regulation

Chris Newsome Director of Asset Management

Martyn Oakley Director of Customer Services
and Information Services

Paul Valleley Director of Water Services

Paul Gibbs Director of Water Recycling Services

Richard Boucher Business Change and
Strategy Director

Claire Russell Group Legal Director/
Company Secretary

Mark Pendlington Group Director of
Corporate Affairs

Kate Kelly Group HR Director*

Ian Rule Director of Wholesale Services

*Kate Kelly left the business on 15 April 2016.

PERFORMANCE 2015/16

We measure our performance against 32 Outcome Delivery Incentives (ODIs). These are the 10 that carry the largest potential financial penalties and rewards for our business. They and others appear throughout the following performance review. A table showing all 32 is on page 206.

INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.

MINUTES PER HOUSEHOLD
TARGET 2015/16

16min 54secs

ACTUAL

8min 12secs

BATHING WATERS

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

EXCELLENT **34**
TARGET 32

GOOD **11**

SUFFICIENT **2**

POOR **1**

INTERNAL FLOODING

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

TARGET
448
(BY 2019/20)

NUMBER OF PROPERTIES
(THREE-YEAR AVERAGE)

ACTUAL
414

EXTERNAL FLOODING

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

TARGET
6,159
(BY 2019/20)

NUMBER OF PROPERTIES
(THREE-YEAR AVERAGE)

ACTUAL
5,645

SERVICE INCENTIVE MECHANISM (SIM)

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

76

4.41

5

QUANTITATIVE - SIM POINTS

QUALITATIVE - AVERAGE OF OFWAT SURVEYS

LEAKAGE

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

MEGALITRES PER DAY
(THREE-YEAR AVERAGE)

TARGET

ACTUAL

192

(FOR 2015/16)

189

POLLUTION INCIDENTS

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

371 TARGET
(FOR 2015/16)

144

ACTUAL

WATER QUALITY CONTACTS

TASTE, ODOUR,
APPEARANCE PER
THOUSAND CUSTOMERS

TARGET
(FOR 2015/16)

1.42

ACTUAL

1.38

SERVICEABILITY

ABOVE GROUND/NON-INFRASTRUCTURE

WATER

GREEN TURBIDITY
(CLOUDY WATER)

GREEN COLIFORMS
(AT RESERVOIRS)

AMBER COLIFORMS
(AT WATER TREATMENT WORKS)

WATER RECYCLING

GREEN FAILING WATER RECYCLING CENTRES
(BY NUMBER)

GREEN FAILING WATER RECYCLING CENTRES
(BY SIZE)

BELOW GROUND/INFRASTRUCTURE

WATER

GREEN INTERRUPTIONS
(> 12 HOURS)

GREEN BURST MAINS

GREEN CONTACTS: DISCOLOURATION

GREEN DISTRIBUTION MAINTENANCE INDEX

WATER RECYCLING

GREEN SEWER COLLAPSES

GREEN SEWER BLOCKAGES

GREEN POLLUTION INCIDENTS

GREEN INTERNAL FLOODING

LOW PRESSURE

Number of properties not receiving reference level pressure.

WE ARE ON TRACK TO MEET OUR 2017/18 TARGET AND AIM TO INCREASE PRESSURES AT EVEN MORE PROPERTIES IN 2016/17

NUMBER OF PROPERTIES

361

TARGET
(BY 2017/18)

462

ACTUAL

THE YEAR IN REVIEW: HOW WE MEASURE UP

On the following pages we report on how our performance is already delivering against the 10 outcomes we want to achieve for our customers and the environment. As shown here, these are grouped into three broad headings: 'Your Service', 'Our World' and 'Getting It Right For You'.

GETTING IT RIGHT FOR YOU

We need to run our business efficiently and maintain assets effectively. We need to keep innovating, to improve efficiency and reduce the costs and risks of running the business. We must be financially responsible and earn fair profits. Investment relies on raising finance efficiently and at relatively low costs.

P60

OUR WORLD

We have to meet the rising demand for water, while safeguarding the environment and the quality of life for the communities we serve. We need to reduce our carbon emissions and our reliance on finite resources, and reuse the materials and energy created by our operations.

P40

YOUR SERVICE

We want our customers to be very satisfied with our service and to see their bills as fair and affordable. Water and sewerage are essential services. We work to ensure their quality, reliability and resilience remain world class.

P26

RESOURCES USED AND AFFECTED

To create value for all our stakeholders we use the resources available to us and always endeavour to create a positive impact upon them through our business activities. In this review of our performance we have used the icons below to highlight the resources we are dependent upon and how we use those resources to create value in other areas.

Financial

Natural

Human

Intellectual

Manufactured

Social and
relationship

CASE STUDY

Working with farmers to reduce the amount of metaldehyde reaching our treatment works was a priority for our Catchment Advisors when they were appointed last year.

The pesticide has been an important tool for farmers in combatting slugs that would otherwise devastate crops. When washed off fields into watercourses and reservoirs, however, it poses a significant problem to Anglian Water as it is impossible to treat by conventional methods.

An alternative pesticide – ferric phosphate – is available but most farmers do not use it, either because it is more expensive or because after eating it slugs move underground to die leaving farmers unsure if the treatment has worked.

The Catchment Management team developed a trial called Slug it Out, providing a financial incentive for farmers around six of our key reservoirs to use ferric phosphate rather than metaldehyde. We wanted to understand the impact on water quality of removing agricultural sources of metaldehyde.

Metaldehyde can breach our statutory limits at tiny quantities, equal to one pellet dissolved in an Olympic swimming pool. For the trial to work we needed every farmer in the trial area to sign up. Within three months, they all had.

RESULTS

At some of our reservoirs, the trial has been a great success with levels of metaldehyde reduced to below the 0.1µg/l limit. In other parts of the countryside, where the land is managed for a wide range of uses, the results were not so conclusive.

At those reservoirs where the results were less straightforward, we are now in a unique position to investigate the reasons for exceedances. Follow-up inquiries identified numerous contributing factors such as village gardens and allotments, poor farmyard management practices and the role of contracted agricultural services.

A significant positive has been the number of farmers who said they will now be using ferric on all their land, potentially doubling the trial area. These farmers have a crucial role as ambassadors, telling others about the effectiveness of ferric phosphate in slug control.

The trial has provided invaluable learning for us and the wider agricultural and water industries about what measures are practically possible for managing metaldehyde.

THE INCENTIVE CONSISTED OF THREE PAYMENTS:

- Trial hosting fee (providing access to product records, cropping and fields)
- Subsidy (price difference between ferric and metaldehyde)
- Water quality bonus (if the catchment remained below the 0.1µg/l metaldehyde).

THE TRIAL TOOK PLACE AROUND SIX KEY RESERVOIRS:

- Pitsford
- Ravensthorpe
- Hollowell
- Grafham
- Alton
- Ardleigh

SLUG IT OUT

THE TRIAL IN NUMBERS:**6****The number of reservoirs fed by water from the trial catchments****89****The number of farmers taking part****7,500****The number of hectares covered**

“When we realised that 100 per cent of farmers in the trial catchments had signed up to the scheme it was pretty special. We knew then we were going to be able to gather findings and information to a level that nobody else in the UK has been able to so far.”

Dr Lucinda Gilfoyle, Catchment and Coastal Strategy Manager

CASE STUDY

GREATER PETERBOROUGH UNIVERSITY TECHNICAL COLLEGE

With an ageing workforce and a shortage of engineers coming through the traditional school system, Anglian Water has a real stake in helping to provide something new in education.

The Company has become the lead employer sponsor of the Greater Peterborough University Technical College (GPUTC), which aims to produce high-calibre students with the right skills, experience and mind-set to help meet its future recruitment needs.

The school is funded by the Government, but Anglian Water and its partners will provide technical experts to help with lessons, as well as creating projects and work experience placements alongside other sponsors and local businesses.

Opening in September 2016, GPUTC will provide children aged 14 to 19 with the traditional academic qualifications through GCSE, alongside a set of strong technical qualifications.

Students will be equipped for a career with Anglian Water or another company, or a route into further education. We offer guaranteed job interviews to everyone graduating from the GPUTC.

The GPUTC will specialise in sustainable engineering and construction in the built environment, providing a close fit with Anglian Water's work and our focus on sustainability through our Love Every Drop strategy.

The Company's Head of People Development is chairman of governors at the new school.

THE GPUTC'S SPONSORS

- Anglian Water
- Marshalls
- Larkfleet Group
- Anglia Ruskin University
- Peterborough Regional College

£12M

Cost of the new, state-of-the-art GPUTC building

£2M

The investment in equipment to ensure the GPUTC can provide a world-class technical education

£70,000

Cost of the school's rainwater harvesting system, co-funded by Anglian Water and Kier Construction. Rainwater will be stored in a giant tank and used to flush toilets around the school. This system, along with other environmental monitoring, will also serve as a hands-on learning aid for students, bringing to life the engineering or built environment courses

380

The number of businesses in Peterborough that specialise in environmental goods and services - the largest cluster of such businesses in the country

X2

The UK needs to double the number of recruits into engineering to meet demand

We are continually working to further improve our service and the performance of our more than 38,000km network of water mains. That work is reflected in our performance against the ODIs, which measure progress in delivering our Business Plan.

BUILDING A BETTER NETWORK

The Restoration Team East (l-r):
Phil Nicolaou, Charlie Butcher,
Carl Rutterford and Gary Stalker.

STOPPING THE LEAKS

183 Ml/d

This year we achieved our lowest ever level of leakage.

We have adopted a more proactive approach to finding and preventing leaks. New Intensive Leakage Detection Teams have been tracking down hard-to-find leaks and targeting areas where we believe pipes may need replacing. At the same time, our Integrated Leakage and Pressure Management system brings together information about the network, making it easier to spot and control leakage and to better target our work. We have also been getting faster at fixing leaks. Together with our alliance partners, we have maintained the lowest sustained level of leaks waiting for repair. Better pressure management promises even more, with a dramatic fall in the number of bursts and leaks in areas covered by our Optimised Water Networks Strategy. We are also working with industry and academia to exploit new technology that can further improve our ability to find leaks.

KEEPING THE TAPS RUNNING

8 MINUTES, 12 SECONDS

This year has seen a step change in our efforts to reduce the amount of time customers are without water in the event of a burst or other interruption to supply.

Restoration of customers' supply has priority, with temporary measures to keep the taps running put in place ahead of efforts to fix the problem itself. This is done by a new, dedicated Restoration Team, using water tankers, overland pipes and other, specialist equipment. We are fostering this mindset across the business, helped by our more proactive and collaborative approach.

As a result, we have finished the year well ahead of our ODI target. This says the average length of supply interruption per property (for interruptions over three hours) should be no more than 12 minutes by 2018. This year that figure was 8 minutes, 12 seconds.

THE HIGHEST QUALITY WATER

99.97%

This year was also one of the best on record for the quality of water travelling through our network from treatment works to taps.

Our overall performance is measured using Mean Zonal Compliance (MZC), the key measure used by the Drinking Water Inspectorate to determine compliance with the stringent regulatory drinking water standards in place in England and Wales.

Our water is thoroughly sampled and tested for a wide range of different chemicals and substances, from lead and pesticides to micro-organisms. The results from 39 key parameters make up our MZC, which this year was 99.97 per cent.

This is the best result since 2008 and is due to many different initiatives, including our ongoing Keep Water Healthy campaign, an increase in phosphate dosing at 46 Water Treatment Works to protect people against lead from their old pipes, and our work with agriculture to reduce levels of pesticides in rivers and reservoirs.

This year also saw a record low in the number of contacts from customers about the quality of their water. In Hartlepool, this was helped by a major project to remove sediment from pipework. In the wider region, it was driven by a fall in burst water mains and by better communication with customers through social media.

THE YEAR IN REVIEW

YOUR SERVICE

SATISFIED CUSTOMERS

SERVICE INCENTIVE MECHANISM (SIM)

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

76

4.41
5

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

ENSURE THAT CUSTOMERS ARE VERY SATISFIED WITH THEIR SERVICE

QUANTITATIVE - SIM POINTS

QUALITATIVE - AVERAGE OF OFWAT SURVEYS

Measuring customer satisfaction

This year saw major changes to the SIM, used to compare the customer service offered by water companies.

Changes to the customer surveys that inform SIM scores took effect in April, and at the same time SIM also became one of our main ODIs, with millions of pounds in potential rewards and penalties dependent on our score.

We have responded with a number of changes to our customer service, and as a result we ended the year with third place in Ofwat's qualitative survey, which is based on customer contacts.

A better, more personal service

Key to our success has been the ability to respond to customers' issues faster, to resolve them first time, and to offer them a more tailored and personalised service. To achieve this we:

Resources used

Resources enhanced

Financial

Social and relationship

PERFORMANCE HIGHLIGHTS

Digital Customer Service Team formed to give people greater choice in how they contact us

Our 1Customer IT system wins award

Invested heavily to increase the size of our Customer Care Teams so we can answer more calls, faster

- Invested heavily to increase the size of our Customer Care Teams so we can answer more calls, faster
- Increased the coaching available for Customer Care Specialists to give them a better understanding of customers' needs
- Launched the My Customer initiative, which gives employees the know-how and the freedom to provide a tailored and personalised service
- Used different ways to gather feedback, including SMS surveys sent to customers' phones after each contact with the Company. Feedback is received in almost real time, with highlights displayed on large screens in the Customer Care Centre.

By asking customers for feedback after their first contact with us we have also been able to identify further areas for improvement. One example is our bills, which have been redesigned this year in response to customer feedback with clearer, more personalised messaging.

We had more than 90,000 customers telling us their thoughts this year, with more than 95 per cent satisfied with our service.

1Customer wins award

Introduced last year, our 1Customer IT system has continued to prove its worth. By pulling a wide

range of customer data onto one easy-to-navigate screen, the system has allowed customer issues to be resolved faster and, increasingly, at first contact. The system was the Gold Winner in the Business Transformation category of the SAP United Kingdom and Ireland (UKI) Quality Awards.

Digital Customer Service

Our Digital Customer Service Team was formed in July 2015 to give people greater choice in how they contact us about a wide range of topics.

As the number of customers contacting us through digital channels continues to grow, we need to make sure we can respond and that we offer them the high standards of service they have come to expect.

The team responds to customers on social media and through our website's digital chat function from 7.30am to 10pm Monday to Saturday, and from 8am to 5pm on Sundays.

It also provides service updates through the increasingly popular In Your Area part of the website and through proactive messages sent to customers affected by work in their local area. This gives the Company a new way to contact customers and ensure they are kept up to date throughout any work.

INSTITUTE OF CUSTOMER SERVICE

Customer expectations continue to rise and they compare us against their experience of companies across a range of industries and sectors. To ensure we are among the very best, we became members of the Institute of Customer Service.

Their annual Customer Satisfaction Index (UKCSI) measures people's recent experiences of customer service across 13 different business sectors. This allows us to benchmark our performance against other utility providers while identifying emerging

trends in a wide variety of other sectors.

Anglian Water has set itself the target of being upper quartile within the utility sector, including the retail only companies.

This year we achieved a UKCSI score of 72.3, just outperforming the utility sector score but a little way off the upper quartile score of 75.2. To comfortably and consistently achieve upper quartile performance we will look to other pioneering industries, learning and developing through their experiences.

THE YEAR IN REVIEW

YOUR SERVICE

FAIR CHARGES

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

BILLS BALANCE FAIRNESS, AFFORDABILITY AND VALUE FOR MONEY

PERFORMANCE HIGHLIGHTS

Introduced our new social tariff to support customers who would otherwise struggle to pay their bills in full

Began to roll out Wave, our combined metering and water efficiency programme

Independent surveys show more people see our charges as fair, affordable and value for money.

We know that household budgets remain under pressure. Most customers say bills are already fair, affordable and value for money, but we are focused on doing what we can to improve on this position.

Each year we find out what our customers think about our charges through four independent surveys, carried out by the Consumer Council for Water. These cover fairness, affordability, and whether our water and water recycling services are value for money.

We are committed to at least maintaining levels of satisfaction in each area, and all four showed an improving trend in the 2014/15 surveys. We expect this improvement to continue when results of the most recent survey for 2015/16 are announced in August.

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

In 2015/16, customers on average saw their annual bill drop by around 7 per cent in real terms to £402 per year, or £1.10 per day. In 2016/17 that will rise slightly, by 1.4 per cent, to £411 per year or £1.12 per day. This will pay for £444 million of investment in 2016/17, while still keeping bills lower than they were three years ago. Customers with a water meter will pay even less, with the average bill at £378.

Help for those in need

We introduced our new social tariff - LITE (Low Income Tariff for Eligible Households) - in April 2015, to support customers who would otherwise struggle to pay their bills in full.

This followed a consultation, which showed strong support among customers, who pay an extra £1 a year to fund discounts of 20, 40, 60 and 80 per cent, depending on the financial circumstances of the applicant.

Whether someone is eligible and the size of discount given are assessed in partnership with Citizens Advice, which looks at people's water and sewerage bills as a proportion of their disposable income.

Resources used

Intellectual

The tariff is not available in the Hartlepool Water area, as the proposal did not get enough support from customers there.

Due to the finite nature of the fund it draws on, the tariff can support about 5,000 customers at any one time. We receive around 450 applications each month and had accepted more than 3,000 by 31 March 2016. Most of those accepted are eligible for the full 80 per cent discount, which shows promotion of the tariff is being effectively targeted at those most in need.

We hope to allocate all the available funds during 2016. After that we will manage renewals so that as people's circumstances improve they can be taken off the tariff, allowing it to remain open to new applicants throughout the year.

We also run a number of other schemes for vulnerable customers, including the Aquacare Plus and Watersure tariffs. Altogether, these schemes are providing assistance to over 75,000 customers.

SoLow

April 2015 also saw us begin to phase out our SoLow tariff, which was designed to benefit households with low water use and to encourage water efficiency.

The tariff has no fixed charge, with the whole bill based on the amount of water used. It was originally meant to help customers moving to a metered bill from one based on the rateable

value (RV) of their home. At the time, the fixed charge on a standard, metered bill was relatively large and we did not want to penalise people who used a small amount of water and would otherwise benefit from switching to a meter.

Making bills fairer

It has since become clear that SoLow is not the fairest way to charge for water. The tariff does not target help at people who need it most. Nor does it necessarily reward people for being water efficient.

Often, a household's water use is low simply because it contains just one or two people. A large household might be just as efficient but still use more water overall.

The lower charges for SoLow customers are achieved by charging other customers more. The impact of this is that customers who may struggle to pay their bills are subsidising households that are better off and less water efficient.

The new LITE social tariff is a more targeted way to help customers with affordability issues and its introduction provided the opportunity to begin phasing out SoLow.

This will make charges fairer for customers as a whole, by sharing out costs in a fairer way. Anglian Water will not make any extra money from the change.

Listening to customers

Many SoLow customers will have higher bills when they move to our Standard Tariff. This includes a fixed, standing charge that reflects the cost of providing our services, regardless of how much water someone uses. However, the charge per cubic metre of water used is slightly lower on the Standard Tariff, so some customers may be better off.

Originally, we agreed with the Consumer Council for Water that SoLow would be phased out over three years. However, customer feedback caused us to look again at the impact on customers with the lowest consumption. As a result we decided to increase the phase-out to six years. This means SoLow customer charges will not align with those of Standard Tariff customers until 2020/21 at the earliest.

PER PROPERTY CONSUMPTION

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

TARGET (BY 2019/20)

305

ACTUAL

314

Increasing water efficiency, efficiently

We are committed to metering as the fairest way to charge for water, encouraging water saving and ensuring 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. Seventy nine per cent of our customers already receive a metered bill.

During the next five years, teams from our new Integrated Metering and Developer Services alliance (IMDS) will be installing 86,000 new meters, upgrading another 412,000 and visiting 120,000 customers to offer efficiency tips and install water-saving devices.

Wave

We have combined our metering and water efficiency work into a new programme called Wave. This divides the region into areas that are visited in turn, offering all elements of the programme delivered in the same place at the same time. Colleagues from Anglian Water, Kier and Clancy Docwra work together, and present a single, unified face to our customers. This new approach also minimises the disruption to the communities we serve.

Working in a tight geographical area increases efficiency and makes it easier for our customers to engage with us. This results in more people choosing to switch to one of our newly installed meters, and receiving advice on reducing their bills by taking up our free home visits.

We also held a number of local drop-in sessions to tell people about the work we are doing in their communities. We work in partnership with housing associations and Citizens Advice to help vulnerable customers save money on their bills. We have created a Save Water It Matters activity for children in Wave areas to take home and encourage families to think about their water use, where they can make savings, and switching to a water meter.

In this first year, the programme was focused on Norfolk and Buckinghamshire, where we installed 12,000 new meters, exchanged another 50,000 and carried out 16,000 home visits.

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

We assess our success in encouraging water-efficient behaviour by measuring average water consumption per household. This is one of our ODIs. Our target is to reduce average per household consumption by seven litres a day between 2014/15 and 2019/20, by continuing to transfer customers to meters and helping customers to use water more efficiently. Our AMP6 programmes of work in these areas commenced in 2015/16 and are set to accelerate as we move into the second year.

YOUR SERVICE

**SAFE,
CLEAN
WATER**

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

MEAN ZONAL COMPLIANCE

This is a measure of compliance with water quality parameters.

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

**DRINKING WATER IS SAFE,
CLEAN AND ACCEPTABLE**

TARGET
(FOR 2015/16)

99.96%

ACTUAL

99.97%

PERFORMANCE HIGHLIGHTS

Lowest number of water quality contacts on record

Mean Zonal Compliance at its highest for eight years

Success for our Slug it Out campaign, encouraging farmers to use alternatives to metaldehyde for slug control

Our network

We have maintained the excellent quality of the water leaving our treatment works, and once again improved on the measure relating to maintenance of our networks (Distribution Maintenance Index). The quality of the water travelling through our network to homes and businesses (MZC) has also improved.

Our Keep Water Healthy campaign for domestic customers and small businesses is designed to help people maintain that high quality when water enters their own, private pipework. The campaign has found new ways to talk to people in a friendly and informative way, and this has played a large part in its success to date.

We also continued to support the national WaterSafe scheme for approved plumbers and have been recognised as a major contributor to its success.

Resources used

Resources enhanced

Intellectual

Social and relationship

THE YEAR IN REVIEW

We measure the quality of our drinking water, carrying out more than a third of a million tests every year. This year our overall compliance was 99.97 per cent. This is our best performance since 2008.

We also delivered a good performance at our treatment works, where we are measured by the Drinking Water Inspectorate, although there were slightly more coliform failures than last year, with eight compared to six in 2014.

We are continually investing to maintain and improve water quality. This year saw us complete the upgrade of our water treatment plant in Hartlepool, with UV treatment. During the next five years we will prevent a decline in water quality due to increasing levels of nitrate, pesticides and nickel in rivers and boreholes. We will continue with our strategy to reduce lead in drinking water and protect water quality in buildings.

WATER QUALITY CONTACTS

This year has seen a fall in the number of contacts from customers about the appearance, taste and odour of their water, which dropped from 1.48 per 1,000 people to 1.38. This is our best result on record.

Our success was closely related to the fall in the number of burst mains, which can occasionally stir up sediment in pipes and lead to temporary discolouration of the water. They can also allow

air into the supply, giving the water a frothy, white appearance. While neither of these things is harmful, they can lead to calls from concerned customers.

Keeping customers informed through social media and other channels when work affects their supply has also helped. Our messages include information about possible discolouration, reducing the need for people to contact us.

Resources used

Human

Resources enhanced

Social and relationship

WATER QUALITY CONTACTS

TASTE, ODOUR, APPEARANCE PER THOUSAND CUSTOMERS

TARGET (FOR 2015/16)

1.42

ACTUAL

1.38

Lead replacement

Our planned lead communication pipe replacement programme has continued, replacing old lead pipes with new plastic ones to help reduce levels of lead in drinking water for our customers.

The planned work team has replaced more than 2,200 lead pipes this year, while achieving an outstanding 90 per cent customer satisfaction score on our survey, which we invite all customers to take part in.

Work has focused on Bedford, Peterborough and Norwich, which are three of our highest priority areas for lead. We continually assess our region to make sure we know where lead pipes are most likely to be found.

As well as our planned programme, we have also replaced more than 400 lead pipes for customers either following sampling, as part of our mains replacement programme, or as part of a free new connection to the water main for customers who replace the lead pipes on their property.

We have also been working with local councils and health protection teams to educate our customers on the risks of lead, especially pregnant women and children under six, who are most vulnerable to the risks of consuming lead. We offer a free lead test to all Anglian Water customers and encourage people to use this service through our website and lead advice line, where customers can call for advice or to arrange an appointment. This year we have carried out more than 300 tests.

In addition to educating our customers and reducing the number of lead pipes in our region, we are investing in new equipment at our water

treatment works to help reduce lead levels in drinking water. In 2015, we worked hard to optimise this treatment, which reduced the number of lead sample failures right where it matters, at customer taps.

Catchment management

As part of our catchment management strategy we have employed a team of catchment and coastal officers to work with landowners and others to reduce pollution in raw water and in bathing waters.

A major goal for the team has been to reduce the amount of metaldehyde entering waterways and reservoirs. We also worked hard to minimise the number of metaldehyde failures by working hard on abstraction management, shutting our intakes when we had evidence that the levels were high so it did not get into reservoirs.

Working with farmers

Agriculture is of huge importance to our region. East Anglia alone produces more than half of the UK's sugar, a third of its potatoes and a quarter of its wheat. Like us, the agriculture sector is a major abstractor of water in our region, so it is vital we work together to protect water quality and quantity now and for the future.

Last year, we appointed an Agricultural Catchment Team that has spent the last

12 months on the road, building relationships with the farmers, landowners, agronomists and the agricultural supply chain across our region.

So far the team has:

- Carried out 282 individual farm visits
- Presented at 67 agricultural events with a combined audience of more than 1,800
- Had a visible presence at 114 agricultural meetings and trade shows
- Worked with agricultural colleges on the Great Farm Challenge, working with students on water quality, catchment-sensitive farming, diffuse pollution and soil compaction.

In addition, the team has featured in multiple trade media articles, radio interviews and on TV, as well as supporting numerous initiatives in partnership with the Environment Agency, Rivers Trusts, Countryside Stewardship, National Farmers Union and many others.

As well as engagement, our Agricultural Catchment Advisors have been working hard to deliver several large-scale trials and initiatives, including *Slug it Out*, which is aimed at reducing levels of metaldehyde in key reservoirs used for drinking water (see the case study on page 23). The team has also been supporting field trials in Lincolnshire and working with the outdoor pig industry to protect groundwaters across Norfolk and Suffolk.

PIGS FROM SPACE

Free-range pig farming is growing fast in the Anglian Water region, with large expanses of Norfolk and Suffolk being set aside each year to house temporary farms that can contain thousands of animals.

Pigs can cause substantial damage to field surfaces with their rooting behaviour. While careful land management can control the damage, pig farms can pose a bacteriological risk to drinking water sources if they are close to groundwater aquifers.

We are currently working with pig farmers and the pork supply chain to provide them with information on areas where outdoor pig farming could pose a risk to groundwater quality. The UK outdoor pig industry does not want to locate its activities in places where there might be an issue and are keen to work with us.

Although some pig farms are easy to spot from the ground, others are not. With the help of colleagues from Innovation, we are now looking at the use of satellite data to quickly spot whether pigs are being moved into or housed in locations of interest. This allows the Catchment Advisors to get on the ground quickly and work with landowners and farmers to prevent problems from developing.

YOUR SERVICE

RESILIENT SERVICES

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

OUR SERVICES COPE WITH THE EFFECT OF DISRUPTIVE EVENTS, IN PARTICULAR INCREASINGLY SEVERE WEATHER EVENTS

PERFORMANCE HIGHLIGHTS

Leakage at its lowest ever level

Performance on interruptions to supply well ahead of Outcome Delivery Incentive target

Completed work on the IRIS programme to replace our radio telemetry system - the largest of its kind in Europe

Being prepared

The importance of being prepared is embedded into all our activities. We have a comprehensive set of emergency plans to ensure we are prepared for and can respond to an incident and that our services remain resilient.

These plans are tested and exercised regularly as part of a comprehensive in-house training programme for employees likely to be involved in an emergency response. Over the last year we have trained more than 250 people in incident roles and carried out more than 20 exercises to prepare our employees for any eventuality and ensure swift, effective deployment of alternative supplies, should they be needed.

We have also increased the means to deploy those alternative supplies, with more collapsible water tanks and a mixture of 9,000 and 20,000-litre tankers.

Two new Customer Support Units have been added to our fleet. These can be deployed at incidents to provide a focal point for customers, and as command and control units during difficult and complex operational issues.

We continue to collaborate across 13 Local Resilience Forums (LRFs) and the Multi Agency Support Group for the east of England. These forums bring together organisations with a role to play in helping the region to cope in times of emergency and help us prepare for the impact of natural and man-made hazards.

We are now a year into our AMP6 investment programme of capital projects to improve security and ensure compliance with government Standards for Operational Assets at our water and water recycling sites. In addition, we have continued to drive theft-reduction measures to cut generator, diesel and general theft.

Resources used

Resources enhanced

Human

Social and relationship

Anglian Water is certified to ISO 22301 (Business Continuity Management). This international standard is an extra assurance for customers and key stakeholders that we can keep our business running during, and following, any disruption.

Driving down leakage

We have ambitious targets to reduce leakage. It is the right thing to do for our customers and for the environment; it is what our customers want, and it makes our service more resilient to drought.

LEAKAGE

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

MEGALITRES PER DAY (THREE-YEAR AVERAGE)	
TARGET (FOR 2015/16)	ACTUAL
192	189

As a result, our Business Plan for AMP6 set out a reduction of 10.4 per cent, or 20 MI/d on last year's level, bringing it down to 172 MI/d by 2020.

This year, we achieved our lowest recorded level of leakage, at 183 MI/d. This makes our three-year rolling average 189 MI/d. Our ODI measures performance using this three-year rolling average, which needs to stay below 192 MI/d if we are to avoid penalties.

This success is down to a number of new initiatives. These include:

- Intensive Leakage Investigation Teams

Three teams have been formed with the mandate, training and equipment to track down hard-to-find leaks and to proactively target pipes that may be coming to the end of their useful life. Once leaks are found, the teams can accurately measure the amount of water being lost and gauge how urgently repairs are needed and whether the pipe needs replacing.

- Integrated Leakage and Pressure Management (ILPM)

ILPM brings information about the network together in one place and in real time, making it easier to detect and control leakage. The system further improves our ability to target work at areas of the network with rising leakage.

In addition, we kept our leakage monitoring systems operational at all times, responding to more than 1,630 faults and replacing some 240 failed network flow meters. With the help of our Integrated Maintenance and Repair (IMR) alliance partners Kier and Clancy Docwra, we also maintained the lowest sustained level of leaks waiting for repair, achieving record levels in the last quarter of the year.

The mild winter also helped, allowing us to achieve what is our lowest ever recorded level of leakage.

OWN

Our proactive leakage detection work meant that more than 25 per cent of all burst mains were found and fixed before customers were aware of them. The Optimised Water Networks Strategy (OWN) goes further, by preventing bursts through better management of pressure in our network. In areas with pressure management, there has been a 32 per cent reduction in bursts. Water lost to leaks has fallen by 35.9 per cent, which is more than 8.5 MI/d.

OWN has now developed into a 'Source to Tap' approach to proactively managing our assets. A strategic review of our water supply operation has been carried out to make sure we have the skills, capabilities and set-up to get the best from our people and equipment right the way through the water supply process.

Alongside other key initiatives in the business this will help us meet our outcomes and deliver against a number of key ODIs, including less water lost to leaks, improved serviceability, a reduction in low pressure and fewer interruptions to customers' supplies.

Resources used

Intellectual

Resources enhanced

Natural

PETERBOROUGH NETWORK CALMING

The Peterborough Network Calming programme shows the significant benefits of investing in better pressure management.

Conceived in 2012 and begun the following year, the project involved the installation of three large-diameter pressure-reducing valves and three major cross connections to manage water pressures in the central area of Peterborough.

The scheme initially covered 57,811 connections and 852 kilometres of mains, allowing the flow of water through the mains to be automatically controlled and adjusted in response to changing demand from customers.

As a result, we have been able to reduce the amount of water put out into supply each day by 3.8 million litres, including a reduction in the amount of water lost to bursts and leaks of 2 MI/d. Since the area has been proactively pressure managed there have been 21 fewer burst mains and 108 fewer leaks.

In the last year, we designed and built an extension to the scheme to include an extra 19,118 connections and 190 kilometres of mains. This brings the number of connections proactively pressure managed within the Peterborough area to 76,929, or 90 per cent of connected properties.

The newly extended scheme should deliver:

- A total drop of 5.87 MI/d in water lost to leaks and bursts
- An overall fall of 6 MI/d in the amount of water we supply
- An overall reduction of more than 50 burst mains and more than 200 other leaks every year.

We are currently developing similar schemes in the Milton Keynes, Bedford, Bury St Edmunds and Lincoln areas for delivery in 2016/17.

LOW PRESSURE

Number of properties not receiving reference level pressure.

WE ARE ON TRACK TO MEET OUR 2017/18 TARGET AND AIM TO INCREASE PRESSURES AT EVEN MORE PROPERTIES IN 2016/17

NUMBER OF PROPERTIES

361
TARGET
(BY 2017/18)

462
ACTUAL

KEEPING UP THE PRESSURE

We maintain a register of properties where customers may be affected by persistently low pressure water supplies. From 2010/11 to 2014/15 we reduced the number of properties on the low pressure register from 636 to 505. By 2019/20 we will deliver proactive improvement schemes to reduce this to 257

properties, with an interim target of 361 properties in 2017/18. In 2015/16 a further 43 properties have been removed from the register and more will be removed in the coming year as part of our planned investment programme.

Interruptions to supply - Every second counts

This year has seen a step change in our efforts to reduce the amount of time customers are without water in the event of a burst or other interruption to supply.

Such interruptions are now the subject of an ODI, which measures the number of customers left without water for more than three hours. A formula converts the length of interruptions and the number of customers affected into an average time for the region.

Our three-year average for 2014/15 was 19 minutes, 10 seconds. This has to reduce over the course of the AMP, with significant penalties and rewards attached to our yearly performance.

INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.

TARGET (FOR 2015/16)

16min 54secs

ACTUAL

8min 12secs

MINUTES PER HOUSEHOLD

Resources used

Resources enhanced

Intellectual

Financial

By the end of 2017/18 the average time has to fall to 12 minutes if we are to avoid penalties. Our aim is for 10 minutes in order to achieve the maximum possible reward. To meet the challenge, we are evolving a new approach, with the focus on:

- **Restoration** - of customer supply as the priority. Before, priority would be given to fixing the cause of an interruption, whether a burst pipe or other problem.

A dedicated Restoration Team has been formed and trained in a variety of equipment and techniques, including the use of temporary over-land pipes and water tankers.

More widely, we have fostered a change in people's behaviour, with priority given to the restoration of supplies. Our existing Network and Supply Teams are adopting a more proactive approach, with a focus on preventing problems arising in the first place and on preventing reoccurrences when they do.

- **Investigation** - into root causes so repeat incidents can be prevented. Detailed analysis of the network will help target investment and boost the resilience of pipes and sites, while updated monitoring systems will provide better data.

- **Collaboration** - between teams to achieve goals. Networks, Supply and Restoration have increased collaboration between themselves and with the Tactical Operations Team, which works as a central hub to make sure everything possible is being done to minimise interruptions and to keep customers informed.

- **Consideration** - for water quality and customer satisfaction.

This major effort and a mild winter have resulted in an average time for this year of 8 minutes and 12 seconds.

However, the way the calculations are made means a single major event could set us back. The only way to reduce the impact of such events is to make every second count each time there is an interruption to customers' supplies. We will continue to increase resources, improve our processes and change everyone's approach to avoiding and minimising interruptions.

THE YEAR IN REVIEW

IRIS programme

This year saw the completion of our IRIS programme, which replaced the radio telemetry system that monitors and controls all our water and water recycling networks.

The system is the largest of its kind in Europe and upgrading it to a new, bespoke platform was a hugely complex and sensitive task.

After five years' work, the first parts of the old system were switched to the new, bespoke platform in November 2014 and the transfer continued in stages, with the final part switched over in September 2015.

The benefits include more effective, risk-based, intelligent alarms. These can now be filtered according to weather conditions, where people are working on site and many other factors, giving alarm handlers a clear view of those most likely to represent a real risk to our operation.

During one rainstorm the new system automatically filtered out more than 2,000 alarms that would have otherwise demanded the attention of people in our Operational Management Centre and could have resulted in unnecessary site visits.

Integrating IRIS with our other systems has brought a host of other benefits. We can be more efficient in the way we raise and cancel jobs, with many being handled automatically. We can also react much faster to problems, with more information quickly available. At the same time, we can be much more proactive, pinpoint poorly performing assets and prioritise work more efficiently.

Resources used

Intellectual

Resources enhanced

Human

Keep it Clear

Launched in 2010, our Keep it Clear (KiC) programme aims to change the way people dispose of fats, oils, grease (FOG) and unflushable items such as wipes, to reduce blockages and failures on our 77,000-kilometre network of sewers and pumping stations.

We work with customers, councils, businesses and others, disseminating information through trusted, local voluntary groups to inform people about the causes and effects of such blockages and to change behaviours.

This year saw the launch of Love our Seaside, a campaign that uses animated characters to highlight the potential impact of blockages on bathing water, tourism and the coastal economy.

With at least 250,000 caravans along the east coast, the populations of seaside towns swell with holidaymakers during the summer and blockages rise. Love our Seaside uses roadshows, leaflets and social marketing techniques to target this transient population and bring about behaviour change, working with the landlords of holiday homes and parks, and other local businesses.

So far, more than 16,000 children and adults have learned about Keep it Clear messages through roadshows and school assemblies held in conjunction with interactive learning company Mad Science. This year the programme was extended to include a pantomime, *Wicked Wipe and the Waterworks of Doom*, which tours schools and community groups around Christmas. We are also launching a Go with the Flow game for schoolchildren aged 11 to 13.

In the coming year we will be targeting our efforts locally in small blockage hotspots, nationally through work with retailers and local authorities, and internationally leading on the development of a technical standard for flushable products.

Our preparations for market reform have been depicted as a train journey in communications with employees.

Preparing for competition

Our retail arm, Anglian Water Business (AWB), has continued to prepare for the opening of the market to supply non-household customers in April 2017.

In April 2015, AWB moved into its own office with separate IT and telephony systems, and is now operating independently of our wholesale operation.

AWB will focus on being a leading national retailer, learning from and building on the experience gained by Anglian Water Business (National) Ltd (AWBN), which operates in Scotland. AWBN was the first English company to compete in Scotland, where there has been competition for non-domestic customers since 2008. This year saw a significant success for AWBN, when it won a major Scottish Government contract to provide water and sewerage billing services to more than 200 public sector organisations.

Anglian Water Services Ltd is also preparing for competition and has now established a Wholesale Service Centre, which will be the single point of contact for all retailers. It will be the gateway through which retailers buy services from Anglian Water, and will ensure they are all treated fairly and consistently and all receive the same excellent service.

OUR WORLD

**SUPPLY
MEETS
DEMAND**

**THE OUTCOME WE WANT TO
ACHIEVE FOR CUSTOMERS:**

**MANAGE AND MEET THE GROWTH
IN DEMAND FOR SUSTAINABLE
AND RELIABLE WATER AND
WATER RECYCLING SERVICES**

PERFORMANCE HIGHLIGHTS

Played a leading role in regional and national programmes to ensure the long-term resilience of water supplies

Material progress on work to restore sustainable abstraction from the River Wensum

Plans in place to significantly reduce the number of customers reliant on a single source of supply

We serve the fastest-growing region in the country and our services play a key role in enabling that growth. We also operate in an area of water stress that contains many wetland and conservation sites of national and international importance. To meet the needs of customers and the environment, we are continually planning and investing to maintain the balance between supply and demand.

Investing to secure supplies

During the transition between AMP5 and AMP6, we delivered new water resource schemes to secure supplies for our Norwich, Fenland and Bedford supply systems. Plans are also now in place to further improve the resilience of customers' supplies by ensuring the majority can be supplied from more than one source. This builds on work and investment over the last 10 years and will see the number of customers with a single source of supply reduce from 46.9 per cent to 24.7 per cent by 2020. This falls under the Single Supplies ODI. While our Business Plan quoted only 27.5 per cent of customers reliant on a single source of supply, this did not take into account works where we had previously decided to invest.

Those AMP6 investment plans include a scheme to improve the resilience of the Ruthamford (Rutland-Grafham-Pitsford) supply system in the west of our region. The aim is to make the system resilient against a level of drought worse than anything experienced over the past 100 years. Planning will continue throughout 2016 to find the best solution.

We also continue to invest in our groundwater assets to maintain output and performance. New boreholes were drilled in 2015 in our Norfolk supply systems to secure raw water resources and maintenance carried out to extend the operational life of others.

For water recycling services we have prioritised Water Recycling Centres for investment, taking a phased approach based on expected population growth. We are working with external partners to deliver sustainable ways of removing surface water from our network to create capacity for growth, and developing plans for a strategic sewer to serve Norwich.

Resources used

Resources enhanced

Financial

Manufactured

SECURITY OF SUPPLY INDEX (SOSI)

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

DRY YEAR ANNUAL AVERAGE

CRITICAL PERIOD (PEAK) DEMAND

TARGET (BY 2019/20)

TARGET (BY 2019/20)

100

100

ACTUAL

ACTUAL

100

100

Dealing with drought

Our region is one of the driest in the country and experiences periodic episodes of drought. Successive dry winters can cause water levels to drop in rivers, reservoirs and our ground water aquifers.

We maintain supplies thanks to resilience schemes put in place after previous droughts, the use of drought legislation to abstract from rivers under low flows and, occasionally, restrictions on the use of hosepipes.

We have committed to an ODI that limits hosepipe bans and other service restrictions to less than once in every 10 years. The last hosepipe ban was in 2012.

Protecting the environment

A number of schemes are planned to reduce the environmental impact of water abstraction from rivers and groundwaters. These include work in 2016 to restore sustainable

abstraction on the River Wensum in Norwich, moving our abstraction point away from a section of the river designated as a Special Area of Conservation.

In making changes we need to be aware of the EU's Water Framework Directive, which puts an obligation on member states to prevent the ecological status of water bodies from deteriorating.

Changes to abstraction from our water sources could cause deterioration of a water body if they altered its hydrology. This could leave it unable to support the biology associated with its status.

We are working with the Environment Agency to understand the effect this will have on our raw water supplies and on investigations into the impact of our operations on any environmentally sensitive rivers. This will include developing a range of options to address any outstanding environmental concerns. We will include these in the next revision of our Water Resource Management Plan (WRMP).

We are also making good progress on the planning and delivery of schemes to ensure compliance with the Eels Regulations at the intakes to our major surface water sources. The Regulations require us to protect eels by keeping them away from abstraction and discharge points. Delivery of both the sustainable abstraction schemes and those under the Eels Regulations are covered by the Water Environmental Compliance ODI. No schemes were completed in this first year of the AMP.

Shaping policy

The start of this AMP has seen us influence thinking on reform of the abstraction licensing system, which determines who can take water from the environment, when and in what quantity.

We will continue to offer support to both Defra and the Environment Agency to test their modelling of water allocation in water-stressed catchments. We have also played a leading role in supporting and shaping the guidelines that underpin the next round of water resource planning.

PLANNING FOR THE LONG TERM

Making sure that supply meets demand needs long-term planning. We want to know that the decisions we make today help to ensure safe, reliable supplies of water far into the future.

This means balancing the needs of people and the environment that sustains us in the face of climate change, population growth and economic uncertainty.

Water Resources East

The Water Resources East (formerly WREA) initiative is seen as a leading example of collaborative, multi-sector planning to address these challenges and uncertainties and secure long-term water supplies for water companies, agriculture and the energy generation sector.

Set up by Anglian Water, it brings together all the area's water companies with farmers, conservationists and regulators to develop a long-term, joined-up plan for water stewardship.

The reporting year has focused on planning, and more detailed technical tasks will be delivered in 2016, with a planned completion date of December 2017.

The national picture

We were keen to see a similar approach adopted across England and Wales, and have played a leading role for the sector in a major project, undertaking research into the resilience of water supplies over the next 50 years.

The project will allow for the development of a high-level strategy and long-term planning framework, and will consider levels of resilience alongside investment options for the industry. It will aim to strengthen the resilience of water resources for all water users and to protect the environment.

Jean Spencer, Anglian Water's Regulation Director, is Chair of the steering group, which includes representatives from other water companies, Defra, the Welsh Government, Ofwat, the Environment Agency, Natural Resources Wales and Natural England.

The project aims to report in the summer. Government, regulators and the National Infrastructure Commission are looking to use its findings to provide evidence on which to base thinking on how best to ensure the resilience of water supply nationally in the coming decades.

Planning for growth

We have a statutory duty to provide water and water recycling services to new homes and businesses, and work closely with Local Planning Authorities, developers, the Environment Agency and others to make sure we can meet future demand.

The Government's focus is on growth and the delivery of more houses and infrastructure, and there has been an increase in the development of former Ministry of Defence sites into strategic settlements. For example, planning permission has been given for more than 5,000 houses and extensive business space at Alconbury and Waterbeach in Cambridgeshire.

As a result, we continue to see an increase in developers requesting planning advice using our voluntary pre-planning capacity service. This service helps developers to submit better

quality planning applications, setting out how they can connect to our network without increasing the risk of sewer flooding, pollution and low water pressure.

Where necessary, it also allows our Growth and Planning Team to request appropriate planning conditions for surface and foul water drainage to ensure connections do not result in increased flooding or pollution.

We have established good working relationships with Local Enterprise Partnerships (LEPs), voluntary partnerships between local authorities and businesses that help to determine local economic priorities and drive economic growth and job creation. In the coming year, we intend to work closely with the New Anglia and Greater Lincolnshire LEPs, using their devolved powers to enable the efficient and timely delivery of development.

OUR WORLD

FLOURISHING ENVIRONMENT

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

A FLOURISHING ENVIRONMENT, FOR NATURE AND FOR EVERYONE

PERFORMANCE HIGHLIGHTS

98.9% of our Sites of Special Scientific Interest in favourable condition, compared to a national average of 37.5%

34 of our bathing waters classed as excellent

Major expansion of our BeachCare programme

Caring for land and wildlife in partnership

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

We own and manage a great deal of land, much of it of value to wildlife. This includes 47 Sites of Special Scientific Interest (SSSI), covering nearly 3,000 hectares. Of these, 98.9 per cent are judged to be in favourable condition by Natural England, the Government's nature conservation advisor and natural environment regulator. This compares well with England as a whole, where only 37.5 per cent of SSSIs were in favourable condition at April 2015.

Last year, just 49 per cent of our SSSIs were classed as favourable. The improvement has been driven by work around Rutland Water.

Wave action was eroding the banks of the reservoir, muddying the water and preventing the birds, for which the site is designated, from feeding. We have put a number of measures in place, including rock armour and cages, along with softer solutions like reed beds and fringes to soak up the energy of the waves.

Many of the grasslands around the reservoir are also SSSIs, designated for their mix of plants and also as grazing habitat for birds like wigeon. Their condition has been improved through changes to our mowing and grazing regime, along with successful thistle control.

Our customers said they support our environmental work, provided it does not have a big impact on bills. We work in partnership with conservation charities, local groups and Natural England to ensure the best possible value for money.

Resources used

Resources enhanced

Natural

Financial

Human

Intellectual

Manufactured

THE YEAR IN REVIEW

A great example is our partnership with the Leicestershire and Rutland Wildlife Trust. In 2001, this enabled the re-introduction of ospreys to England after an absence of 150 years. This year, the project hit a major milestone with the hundredth chick hatched. Rutland Water was home to eight breeding pairs, a record number.

PERCENTAGE OF SSSIS WITH FAVOURABLE STATUS

This measures the percentage of SSSIs by area that are defined as in favourable status by Natural England.

TARGET (BY 2019/20)	ACTUAL
>50%	98.9%

Working with communities

This year saw a major expansion of BeachCare, the scheme run in partnership with Keep Britain Tidy. We now support volunteers to care for their local stretch of beach in Great Yarmouth, Shoebury, Southend, East Runton, Cleethorpes, Humberston Fitties and West Mersea.

BeachCare is an extension of our RiverCare programme, which has been running since 2001, encouraging and supporting volunteers to care for their local waterways. The scheme focuses on litter picking, species monitoring and the removal of invasive species. It also supports other Company messages where appropriate.

This year, Anglian Water commissioned AECOM to assess the contributions of the RiverCare and BeachCare programmes. The results of their analysis showed the programmes benefited both the Company and the communities it serves.

Those who volunteered spoke of improved health and well-being, from the new friendships and physical activity, while Anglian Water benefited from an improved reputation in the areas where the schemes run. AECOM also found evidence that the programmes increased people's awareness and appreciation of the natural environment, while improving local environments by removing litter and restoring habitats.

Making conservation part of the day job

This year, we reviewed and updated our Biodiversity Strategy to help guide our work in the future. Written with the support of environmental organisations and agencies, the Strategy is aligned with national nature conservation policy and shows our commitment to protect our SSSIs, manage other important habitats on our land and work with others to support conservation projects across the region, especially in wetland habitats.

Much of the Strategy will be delivered by colleagues on our operational sites, who are educated to deliver benefits for the natural environment alongside their day-to-day activities. One of the ways we do this is through our *Biodiversity: Guidance for Operations* booklet, which was Highly Commended in the Knowledge Sharing category of the Chartered Institute of Ecology and Environmental Management's Best Practice Awards 2015.

This year, we also expanded our network of Biodiversity Champions to cover the water recycling side of the business.

BATHING WATERS

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



Collaboration on the coast

Collaboration is key to improving the standard of our region's coastal waters.

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

These range from rain washing slurry and chemicals off farmland, and poorly maintained private sewer systems, to dog mess on the beach and droppings from bird roosts. Although none of this pollution is from Anglian Water's operations, we see it as our responsibility to help coastal communities address risks to water quality.

Bathing water standards tightened significantly this year with the introduction of the revised EU Bathing Waters Directive. For the last 13 years, all 48 of our region's bathing waters met the standards set out in the original Directive.

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

This year, our results under the new Directive were:

EXCELLENT: 34 GOOD: 11
SUFFICIENT: 2 POOR: 1

This means a quarter of England's best beaches are now in the Anglian Water region, despite the tighter constraints. This is testament to the effective way we have targeted investment, the efforts of our operational teams, and the collaborative and investigative work of our Catchment and Trade Effluent Teams in tracking and tackling sources of third-party pollution.

Clacton Groyne 41 is the only bathing water in the region to be classed as Poor and has a long-running issue with water quality that has been attributed to a combination of private sewerage systems and roosting birds. Working with the Environment Agency, we are using our data, equipment and expertise to help the local authority investigate ways to reduce this pollution.

Resources used	Resources enhanced
Social and relationship	Natural

THE YEAR IN REVIEW

CASE STUDY

SUCCESS IN SOUTHEND

Half of Southend's eight bathing waters were classed as Excellent this year, with three others rated Good and the last, Sufficient.

This represents a big improvement over the last 12 months, with Anglian Water supporting the local council and the Environment Agency to find and remove third-party sources of pollution. This has included:

- Fixing misconnections

This major programme of work has found and fixed large numbers of misconnected private drains, which were polluting the town's surface water system.

- Tracing sources of pollution

Tracer dyes have been placed into watercourses and drainage networks and then monitored to see how far pollutants released from the same locations would travel in different tidal conditions and what impact they might have on the quality of sea water. This means we can target our investigations in the most critical parts of the town. We can also work with the communities in these areas, helping them to understand how closely their day-to-day activities are linked to their beach.

CCTV team members, Craig Connor and Joe Kemp, lower a camera into the drains in Southend.

Half of Southend's eight bathing waters were classed as Excellent this year...a big improvement over the past 12 months.

**CASE
STUDY**

The symbol being used to mark surface water drains.

OPERATION SEA CRAB

We are working with local authorities and the Highways Agency on Operation Sea Crab, a simple way to reduce the amount of sewage and trade waste reaching the sea through surface water sewers.

The contents of chemical toilets and road sweeper washings are among the things incorrectly emptied into surface water sewers by people unaware they are designed to channel rainwater into the sea and prevent flooding.

Our Coastal Catchment Team has identified a number of incidents this year where contamination of surface water drains had a detrimental effect on coastal waters.

The team has been working hard to make people aware of the impact of their actions. Where businesses have been found to be disposing of trade waste, this has led to legal action, but mainly it's a question of education and awareness, and clear signposting to the nearest suitable facilities.

Operation Sea Crab will see surface water drains in seaside towns clearly marked with a crab symbol, letting people know they lead directly into the sea.

Operation Sea Crab is a simple way to reduce the amount of sewage and trade waste reaching the sea through surface water sewers.

OUR WORLD

A SMALLER FOOTPRINT

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

LEADING BY EXAMPLE ON REDUCING EMISSIONS AND CONSERVING THE WORLD'S NATURAL RESOURCES

PERFORMANCE HIGHLIGHTS

Launched our new Energy Efficiency Monitoring System

Reduction of 53% in capital carbon emissions from a 2010 baseline and 5.4% in operational carbon emissions on a 2015 baseline

Generation of energy from our Combined Heat and Power engines at an all-time high of 96GWh

Successfully secured a contract for the Government's new Capacity Market

The nature of our business sees us grappling with some of the biggest global challenges, including the effects of climate change and the need to make the most of finite resources to provide for a growing population.

The World Economic Forum has named the failure to tackle the causes and effects of climate change as the number one global risk over the next 10 years. The dangers of a water supply crisis were also highlighted, ranking third in the Forum's *Global Risks Report 2016*.

This has reinforced our determination to reduce our carbon emissions and waste and to generate our own electricity as part of our contribution to tackling these global problems and to improve the resilience of our services, our business and the region we serve. By doing so we can also reduce costs, drive innovation and set a powerful example for others to follow.

Our carbon reduction goals

Not only are carbon emissions strongly linked to a changing climate, they are also an excellent proxy for energy and materials we consume in building and maintaining our infrastructure. Our leading approach in measuring, managing and reducing both operational and capital carbon continues to deliver considerable financial savings and innovation through our Company and supply chain. We follow the principles set out by HM Treasury's Infrastructure Carbon Review to release the value of low carbon solutions in how we build and operate.

Over the five-year period to 2020 our goals are:

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

Resources used

Resources enhanced

Natural

Financial

This year

In June 2015, we organised a Carbon and Energy Leaders Conference. This was a sector first, with representatives from Anglian Water and its leading suppliers, including front-line employees through to senior management. Delegates discussed the best way to meet our targets for 2020, and the importance of and opportunities for collaboration in delivering reduced-carbon, reduced-cost solutions.

This need for collaboration throughout the life of a project will be mirrored in a new Publicly Available Specification (PAS 2080), which will be launched in May 2016. It will be a world first, setting the standard for managing carbon in infrastructure. We will be encouraging our supply chain to comply with the standard and further reduce carbon and costs.

Measuring

Annual gross operational carbon emissions have decreased by 5 per cent in 2015/16 in comparison to the 2014/15 baseline, decreasing from 455,335 t/CO₂e to 432,646 t/CO₂e. The main influencing factors include a further increase in renewable generation, a 2 per cent reduction in electricity imported from the grid, and decarbonisation of the grid by 7 per cent, which was slightly offset by an increase in the emissions factor for methane.

Greenhouse gas emission data has been measured and reported in line with the Defra Environmental Reporting Guidelines published in June 2013.

Annual net operational carbon emissions have decreased by 5.4 per cent in 2015/16 in comparison to the 2014/15 baseline, decreasing from 446,834 t/CO₂e to 422,790 t/CO₂e.

CAPITAL CARBON

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

REDUCTION FROM 2010 BASELINE

TARGET (BY 2019/20)

60%

ACTUAL

53%

OPERATIONAL CARBON

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

REDUCTION FROM 2015 BASELINE

TARGET (BY 2019/20)

7%

ACTUAL

5.4%

Our design engineers and Capital Delivery Teams have delivered a 53 per cent reduction in capital carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

For the sixth successive year we achieved CEMARS (Certified Emissions Measurement and Reduction Scheme), evidencing our continued success in consistently delivering carbon reductions. This recognition sits alongside the Carbon Trust Water Standard, with Anglian Water the first water utility to achieve both carbon and water standards.

Solving the 'Energy Trilemma'

We are one of the largest energy users in the east of England. This is a big cost to us as well as having an adverse effect on the environment through the resulting carbon emissions. Our Energy Strategy is therefore designed to address the three related problems of keeping our energy supplies secure, affordable and sustainable.

This challenge is not unique to Anglian Water. Indeed, the World Energy Council calls it the 'Energy Trilemma', describing it as "one of the most formidable challenges facing government and industry".

We work to measure, manage and reduce our energy costs and the associated carbon emissions, while generating an increasing amount of our own power from renewable energy.

We have continued to deliver numerous engineering solutions to ensure our sites operate efficiently, but know that we can't simply engineer our way towards an energy-efficient future.

Energy Efficiency Monitoring System

This year saw the launch of our new Energy Efficiency Monitoring System (EEMS), which will transform the way we reduce energy wastage on operational sites.

A major programme of meter installation means we can now monitor energy use at our 25 most power-hungry sites in much greater detail, right down to the level of individual pumps. Together, these sites account for 40 per cent of our energy use. The meters are linked to a new IT system, which will constantly monitor their output and trigger alerts if equipment exceeds pre-set efficiency targets.

The new system will be fully operational by the end of 2016, but has already demonstrated its potential. During testing, the data from new meters at Cambridge Water Recycling Centre showed a pump was running inefficiently. The cause turned out to be a blockage, which was cleared. However, the EEMS data continued to show a problem, and investigations found a second, subsequent blockage.

Previously either one of these blockages could have gone unnoticed for some time, causing large amounts of power, and thousands of pounds, to be wasted. What is more, the pump will now be inspected and maintained more frequently to prevent future problems.

The ability of EEMS to constantly monitor energy use and to help pinpoint hidden problems on large sites promises to deliver large savings.

The solar array at Bedford Water Recycling Centre.

Renewable energy

We self-generate an increasing amount of power from renewable energy. This year, we produced 112GWh, an increase of 12GWh on last year and around 16 per cent of our electricity use.

Most of this is generated by our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. We also have wind turbines at March and Newton Marsh Water Recycling Centres.

We have now entered into a strategic partnership with eight companies who will fund and install solar arrays on our sites. The first five were commissioned and installed this year by HBS New Energies and Lark Energy, four on spare land at Water Recycling Centres and the fifth on the roof of Hall Water Treatment Works in Lincolnshire. Hall is our newest and most advanced water treatment works and the roof was constructed and orientated to accommodate solar panels. Together, these arrays will generate at least 1.5GWh of renewable energy a year.

Energy demand management

Anglian Water carefully manages its supply and demand of energy to minimise costs and deliver wider benefits. We have a fleet of generators to ensure supply security. However, they also earn income for the Company by providing services to the National Grid.

HELPING TO KEEP THE LIGHTS ON

We make our fleet of generators available to the National Grid, providing two different services to help them manage supply and demand.

We were involved in the Short Term Operating Reserve (STOR) throughout AMP5 and took part again this year. We made more than 90 of our standby generators available to National Grid between April and October when they need

extra generating capacity. This also generated an income for Anglian Water.

Anglian Water was one of the first companies to participate in the National Grid's Demand Side Balancing Reserve (DSBR), which launched in 2014/15 and helps it ensure there is enough power available during winter weekday evenings when the gap between supply and demand is tightest.

COMBINED HEAT AND POWER

The generation of energy from our fleet of CHP engines continues to grow. Two main factors have worked together to boost performance in recent years:

- Commissioning of sludge treatment centres at Pyewipe, Colchester, Basildon and Cliff Quay. These use our patented Heating, Pasteurisation, Hydrolysis (HPH) process to condition sewage sludge before treatment, leading to better quality biosolids for agriculture and 5 per cent more biogas for our CHP engines.
- Creation of an in-house team to take on the operation of engines at five sites. Since it was formed in 2014, proactive work has gone up, and response times to failures dramatically reduced.

These and the resulting collaboration between Treatment and Maintenance Teams have seen output grow to 96GWh, a more than three-fold increase compared to the start of AMP5 in 2010.

To increase the engines' efficiency and performance, we are expanding the in-house team to take over the remainder of the fleet from external contractors and aim to take output to 105GWh by 2020. This will be helped by the addition of engines at Chelmsford Water Recycling Centre in the coming year.

The CHP plant at Great Billing Water Recycling Centre in Northampton.

The Capacity Market

This year, we were successful in securing a contract for the Government's new Capacity Market. This will see us guarantee to provide the National Grid with power when needed in return for a steady, predictable income stream.

The Capacity Market aims to help address the Energy Trilemma by making best use of power generation and potential demand-side response in the UK, and encouraging companies such as Anglian Water to further explore this opportunity.

Demand management

We carefully manage the power we generate ourselves and the power we import. This allows us to maximise our income from exporting power and minimise the amount we are charged for importing it during periods of peak demand, when tariffs are much higher than at other times. This year, our demand management has provided a benefit of more than £2 million to the Company.

Where there's muck, there's brass

The biosolids produced from our water recycling process are a valuable product for farmers and an important source of income for our Company. We also believe that recycling biosolids to agriculture is the right and most sustainable thing to do.

It is hugely important that the food industry also has total confidence in our product. We have persuaded the water industry to back a national Biosolids Assurance Scheme (BAS) and have funded its development. The Water and Sewerage Companies (WASCs) in England and Wales all then contributed to the formation of a new company, Assured Biosolids Ltd. The WASCs are joint owners of the company, which administers the scheme on their behalf.

This year, we became the first company to pass a successful audit of its entire sludge treatment and biosolids recycling operation against the new BAS standard.

THE YEAR IN REVIEW

We are also keen that the scheme helps to ensure a level playing field when the market for sludge treatment opens to competition after 2020.

Keeping things moving

Around half of the liquid sludge that goes into our biosolids is transferred to treatment centres by tanker.

In July, we changed the terms and conditions and shift patterns of our LGV tanker drivers to ensure the fleet was available 24 hours a day, seven days a week. The changes also addressed some outstanding concerns from the drivers around rest and holidays, and since July overall productivity has increased by about 5 per cent.

Having the tanker fleet available around the clock also increases the resilience of our water recycling operation. In addition to transporting sludge, the tankers are used to relieve the pressure on Water Recycling Centres, pumping stations and the sewer network at times of high demand.

Zero waste

We continue to work towards our goal of becoming a zero waste company, reusing and recycling across our operations to make them more efficient and sustainable. It is important that we stop viewing and treating materials as waste, and find alternative uses for the materials produced as a by-product of our operations.

Getting a clear picture

To succeed we first need a clear picture of what happens to those materials. That requires a consistent approach to waste across the business.

Last year, we appointed Biffa as our sole contractor for dry wastes and this year, we successfully combined the Company's various waste management procedures into a single set of processes for everyone to follow. This improves our confidence in the performance reports we receive from across the business, which this year show 96 per cent of our waste being put to a beneficial use.

A well-trained workforce

In June, we introduced an in-house, bespoke training system to certify our teams on the management and disposal of waste. This training and certification system has been audited and approved by the Environment Agency, Lloyds Register Quality Assurance and UKAS, and replaces the externally provided Waste Management Industry Training & Advisory Board (WAMITAB) training for waste permit holders. Being able to provide this training in-house saves money, makes us more resilient and results in a training programme tailored to our industry.

There is no such thing as waste

Moving towards zero waste demands we think more strategically, reviewing our operations to minimise the amount of material that gets treated and disposed of as waste.

This approach is in its infancy, but Water Services has begun looking at the materials used and removed from water during treatment. The aim is to turn more of these into valuable by-products people want to use and buy, rather than leaving them as waste that costs money to dispose of.

We are also working to influence the way waste is viewed by policy makers. This includes responding to consultations on the EU's package of measures to encourage a circular economy based on reuse and recycling.

In the same way we have stopped referring to the water we recycle as waste water, we need to challenge the wider definition of waste. Properly managed, almost everything can have a use and a value, which would help to power a circular economy.

Resources used

Human

Resources enhanced

Manufactured

OUR WORLD

CARING FOR COMMUNITIES

THE OUTCOME WE WANT TO ACHIEVE FOR CUSTOMERS:

WORKING RESPONSIBLY WITH AND FOR YOUR COMMUNITY

PERFORMANCE HIGHLIGHTS

- ✓ Awarded the Queen's Award for Enterprise: Sustainable Development
- ✓ Became lead sponsor of the new Greater Peterborough University Technical College
- ✓ The first water company to be recognised by the Science Council as an Approved Employer

Queen's Award for Enterprise: Sustainable Development 2015

In April 2015, Anglian Water was honoured with the prestigious Queen's Award for Enterprise: Sustainable Development. The award recognises the Company's achievements in embedding sustainability in every aspect of its operations. It follows the five-year development of the Love Every Drop strategy, which captures the Company's commitment to sustainability and includes the whole business, from the water it supplies to the recycling of used water before it's returned to the environment.

It is a ringing endorsement of our strategy and a reward for our employees, partners and the millions of customers who have contributed to it through their support for our vision of putting water at the heart of a whole new way of living. Our Business Plan for the next five years will push things further, with stretching goals on carbon and energy, climate change, the environment and water efficiency.

The award, which will last for a full five years, was officially presented at an event to showcase the achievement of employees and to engage with regional and national stakeholders about future plans.

Community perception

We are determined to make a positive difference to the region and communities we serve, and have decided to measure our performance through a Community Perception ODI. In 2015/16 a survey of customers found 56 per cent of those asked agreed that we care about the communities we serve. We have committed to increase this to 60 per cent by 2019/20.

Inspiring the next generation

The UK is facing a shortage of engineers. It is estimated that the number of recruits into the profession needs to double if the demand is to be met.

One way to address the problem would be to increase the number of women in engineering. Only 6 per cent of the UK's engineering workforce is female, and only half of female science, technology, engineering and maths (STEM) graduates go into similar roles.

THE YEAR IN REVIEW

Anglian Water needs a new generation of motivated, passionate and well-trained engineers to provide its services in the future and is keen to promote engineering as a career choice.

In June, the Company hosted a three-day event for hundreds of female students from Northamptonshire and Hitchin, to support National Women in Engineering Day. The students got to meet engineers from Anglian Water and our alliance partner companies at Pitsford Water Treatment Works, taking part in a number of engineering challenges.

A vision for Wisbech

We are committed to caring for and making a positive difference to the communities we serve. In Fenland, our aim is to tackle the area's deprivation, isolation and unemployment by being a catalyst for change, promoting enterprise and helping those already working hard to build people's skills, aspirations and opportunities.

We have been supporting Fenland District Council with a transformative vision called Wisbech 2020, bringing together public and private-sector partners. The aim is to deliver major improvements to North Cambridgeshire's infrastructure and to unlock growth.

We seconded a senior operations manager to the charity Business in the Community and he is now working in Fenland as a Business Connector. This year, he secured funding from the Local Enterprise Partnership for a monthly Jobs café and has been working closely with Nestlé, Lloyds and YMCA to deliver support and advice to job seekers.

His role includes organising an annual Jobs and Skills Fair, which this year hosted 25 businesses offering more than 200 local jobs. The event led to more than 60 vacancies being filled.

Looking further into the future, he has led a coalition with the District Council, businesses and the respected and award-winning urban planner Professor David Rudlin, to establish a long-term vision for the town, gathering views from more than 1,000 residents and drafting plans for a new Garden Town and the re-establishment of the rail line to Cambridge.

IT'S A WORLD RECORD!

One of the challenges given to the students at our National Women in Engineering Day event was a trial run to design and test the techniques needed to build the world's largest paper structure.

The trial was followed in October by a successful attempt on the world record, with Matt Humphries, a Programme Manager and Science, Technology, Engineering and Mathematics Network (STEMNET) Ambassador, leading a group of 70 students in building a 3.4 metre pyramid made from more than 5,000 rolled-up paper tubes.

Building the structure took two days, and formed part of a taster week for new students starting at the GPUTC when it opens in September. A team of 15 Anglian Water employees worked with 70 students who have enrolled on courses at the GPUTC.

Some of the Anglian Water staff and students involved, with their world record-breaking structure.

Recreation

Our Water Parks and nature reserves play a hugely important role in helping us deliver for customers. They provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us meet our goal of making a positive difference to the communities we serve.

We manage public access to almost 4,000 hectares of parkland, woodland and water, most of it centred on 10 of our 14 reservoirs. These Water Parks are a wonderful resource for the public, offering the chance to spend time outdoors in a variety of pursuits from fishing and sailing to walking, cycling and wildlife watching.

Our aim is to make these parks into visitor destinations of choice, and this year they played host to a wide range of events from open-air plays and concerts to sporting events and steam rallies.

Highlights of a busy and productive year included a visit from veteran wildlife broadcaster Sir David Attenborough, who officially opened a new Volunteer Training Centre at Rutland Water.

Partly funded by Anglian Water, the purpose-built centre will provide essential training for the small army of volunteers who help run Leicestershire and Rutland Wildlife Trust's Rutland Water nature reserve. With 400 volunteers giving 35,000 hours a year, the reserve is the largest wildlife volunteer project in the country.

The new centre will provide training in countryside management, nature conservation and heritage skills.

This year also saw a zoo become the latest addition to Rutland Water's list of visitor attractions. Bugtopia, based in the former butterfly centre at the park's Sykes Lane site, has a collection that includes giant stick insects, foot-long millipedes, monitor lizards and caymans.

Pitsford Water was awarded the prestigious Green Flag standard for park management for the first time this year, with Rutland, Grafham and Alton Water all retaining their Green Flags. Applications are also in for Taverham Mills Nature Reserve and Fishery in Norfolk.

Rutland also hosted the Water Industry Conference for Conservation, Access and Recreation practitioners. This allowed us to showcase the park as a leading example of how to balance the needs and impacts of a multitude of visitors to ensure the park delivers for people and wildlife.

Plugging the skills gap

Anglian Water is a major employer in our region, supporting thousands of employees and their families. Our employees also support us; their skills and experience are essential to the delivery of our services.

Like many employers we have an ageing workforce, and a significant number of employees who will retire in the next 10 years. This, combined with a shortage of engineers coming through the school system, means it is vital that we recruit, train and retain the workforce we need in the years to come.

Educating tomorrow's employees

We are at the heart of two education initiatives to develop the technical skills of 14 to 19 year olds and provide opportunity for employment to the next generation.

In Peterborough, we are the lead sponsor of the GPUTC. Opening to students in September 2016, this new UTC aims to provide a world-class technical education with an emphasis on sustainable engineering and construction.

The academic and industry sponsors shape the curriculum and offer employer projects that will bring the learning to life. These will include visits to our sites and working alongside our own engineers on real business issues.

Anglian Water and its civil engineering alliance partners are also sponsoring two, two-year BTEC courses at the College of West Anglia in Wisbech. These will lead to apprentice programmes and should help us to find mechanical and electrical engineers and construction operatives of the future.

Students who pass the courses at either institution will be offered an interview for employment with Anglian Water or a partner organisation.

THE YEAR IN REVIEW

Recruiting and developing new talent

We run both graduate and apprentice programmes to build technical competence and to nurture the business leaders for the future. We have a strong track record of retaining employees recruited in this way, with 96 per cent of all graduates employed since 2011 and 89 per cent of the apprentices employed since 2009 still with the Company.

Setting new standards

We have been recognised by the Science Council as an Approved Employer, in recognition of our professional development strategy and the range of development programmes we run.

Anglian Water is the first water company to be recognised in this way and the first company in the UK to be awarded both Approved Employer and Employer Champion status. This is a major boost for our efforts to attract and retain scientists and technicians.

Transforming our leadership

We are working with management consultancy Lane4 and Loughborough University to deliver a two-year leadership programme for 180 senior leaders from across Anglian Water Services and our partner organisations.

The programme is designed to enhance our leadership capability and build high-performing teams versed in topics including change, personal resilience, innovation and collaboration.

PROFESSIONAL CHARTERSHIP

Given the importance of the services we provide, it is vital that customers, regulators and others trust us and have confidence that our people are competent in their roles. This is why external accreditation against nationally recognised standards is at the heart of our training strategy.

'Getting Chartered' is a key goal, and we have worked with professional institutions to create new industry-wide Chartership qualifications. Last year, 25 Anglian Water people achieved Chartered Scientist and Chartered Environmentalist status, and we are delighted to have another 18 people currently en route to Chartership, with another cohort of 10 candidates starting in 2016.

CASE STUDY

Steve Coles, a Process Controller Technician at Anglian Water's Wing Water Treatment Works, became the world's first Registered Environmental Technician last summer. REnvTech recognises a person's environmental skills and responsibility, and offers a step on the way to Chartered Environmentalist status.

He said: "I thought the qualification would add some validity to the biodiversity work I have done for Anglian Water, and go some way to showing I'm environmentally aware outside work too.

"The application process was reasonably straightforward but there were times when I was glad to have experienced colleagues to give me guidance on how best to capture all I am doing within the application.

"I look forward to making the next step up to Chartered Environmentalist as soon as possible."

Steve Coles' efforts have included planting native bulbs around Wing Water Treatment Works in Rutland.

CASE STUDY

Catchment & Coastal Strategy Manager Dr Lucinda Gilfoyle, with her Chartered Environmentalist of the Year trophy.

Dr Lucinda Gilfoyle, Catchment & Coastal Strategy Manager, was named Chartered Environmentalist of the Year at the Society for the Environment (SocEnv) in December, in recognition of her work around protection of water quality.

Chartered Environmentalist status is granted by SocEnv to professionals whose work shows commitment to the environment and expertise in their field.

Dr Gilfoyle said: "It's really nice to get the award and to know that other people who are external to our business also think that what we're doing in Anglian Water is important and of value. I see it as an independent endorsement of Anglian Water's environmental policy.

"Becoming a member of a professional body is important because it provides opportunities to expand your horizons, to look outside of the day job for solutions and opportunities from other sectors.

"If you've got a better understanding of where your organisation fits within the wider picture and how you tie in with other sectors, bodies and communities, you can make better, more sustainable business decisions."

Gender diversity

Despite being a highly engineering-biased organisation, women are represented at all levels of the Company, accounting for 29 per cent of our technical experts and 25 per cent of our senior managers. Currently, 25 per cent of our Executive Directors are women and female Directors represent 12.5 per cent of the Anglian Water Services Board. Women make up 31 per cent of our people managers. Overall, 30 per cent of our employees are female and 70 per cent are male. The Company is committed to equality, having recently reviewed its diversity and equality policies and is now implementing its diversity plan.

Human rights

The Companies Act 2006 requires us, to the extent necessary for an understanding of the development, performance or position of the Company's business, to include information about human rights issues in this report. Given the nature of our business and area of operations, we do not believe it is necessary to include such information.

However, the safety and well-being of our employees and contractors is something we take very seriously. You can read about how we are performing on the following pages.

Keeping everyone healthy and safe

Whatever the job, however urgent the deadline, we never compromise on health or safety. Our approach is set out in our health and safety charter, which states:

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

Taking responsibility, improving procedures

We were prosecuted by the Health and Safety Executive (HSE) following two incidents that occurred in October 2013 and February 2014. Both incidents involved employees who were injured in falls.

Although we pleaded guilty and were fined £400,000 with £41,000 costs, the judge commented that our response was "genuine, thorough and positive". He reduced the fine due to our early plea, our co-operation with the HSE and the actions we have taken since the incidents.

Peter Simpson has written to all employees re-emphasising our Health & Safety Charter and our goal of 'No accidents', and urging employees to stop work should they feel pressured or not able to continue safely. His message was a reminder for all that safety is everyone's responsibility and Anglian Water takes its obligations seriously.

We also continued to improve the safety of those working at height, spending another £575,000 to reduce the risk of similar incidents.

Working with our partners to improve health and safety

With our new, long-term alliances in place, we are working alongside our supply chain partners to achieve our goals on employee safety and well-being. During the year:

- We held a series of health and safety roadshows attended by more than 1,600 front-line employees including supervisors and managers from Anglian Water and our key partners. The roadshows provided education and advice on diet, nutrition, alcohol intake and mental health issues. Participants were offered mini-MOTs to check blood pressure, cholesterol and glucose levels. They were also trained in emergency first aid techniques and behavioural safety. Feedback was extremely positive with 93 per cent of attendees saying they would recommend them to a friend.

- A Pan-Alliance Safety Group was set up with senior representatives from key partners to take a lead in ensuring consistent, high standards of health and safety for high-risk areas. A robust procedure for safe excavation has already been implemented.
- Anglian Water recognises that health and safety is not just about policies and procedures, but about behaviours too. This year, we have started rolling out a new behavioural safety programme, LIFE (Living in an Injury Free Environment), across our capital delivery routes. This is a long-term commitment as part of helping to achieve our goal of no accidents.

Health is the new safety

In addition to keeping our employees safe, we are also committed to helping them stay well. During the year, we have delivered a wide range of initiatives to improve employee health. These have included education for front-line employees and line managers on supporting colleagues with mental health issues through the national Time to Talk campaign; production of a DVD by nutrition specialist Dr John Briffa on 'eating for energy', and campaigns to encourage employees to lose weight, take more exercise and stop smoking.

Our membership of the Business in the Community Workwell campaign has informed our plans and allowed us to learn from other leading employers about what works. We will be continuing our Employee Well-being campaign in the coming year with further initiatives on mental health, the role of line managers in creating healthy workplaces, and reducing musculo-skeletal injury by staying fit and flexible.

Analysis has shown that every £1 we spend on proactive actions to improve employee health saves us £8 in reduced sick pay, lower healthcare costs and management time.

Playing by the rules

Twice a year, we open ourselves up for detailed external audit by specialists from Lloyds Register Quality Assurance and, as a result, we have maintained OHSAS 18001 accreditation for our health and safety system since 2009.

Driving remains one of the most dangerous activities for many of our employees. Following on from last year's assessment and education initiative we have fitted all commercial vehicles with telematics. This has resulted in significant improvements to driver performance.

Safety in numbers

This year has seen another best ever performance in terms of the frequency of accidents and the number of days lost to sick absence. There have also been fewer serious accidents than in previous years. Our ultimate goal is no accidents and no harm to people, and we continue to set challenging targets each year to reduce the number of accidents as we strive to meet this goal.

MEASURE AND TARGET	2015/16	2014/15	2013/14
Category 1 incidents - ≤10	7	4	11
The number of accidents and very serious near misses that resulted or could have resulted in death, major multiple fractures, amputation or permanent disability. This year, we had no category 1 injuries.			
Accident frequency rate - 0.18	0.11	0.16	0.21
The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors.			
Sick absence - 4.5 days	4.26	4.79	4.96
The average number of working days lost per employee due to sickness.			

DRIVING DOWN ACCIDENTS

Driving remains one of the most dangerous activities for many of our employees. Following on from last year's assessment and education initiative we have fitted over 1,500 of our commercial vehicles with telematics.

A unit behind the dashboard records the driver's speed and driving style, and builds a picture of each driver's performance.

In the cab, drivers see a Driver Behaviour Indicator, which beeps if they drive over bumps in the road too fast, brake or corner suddenly, or if they accelerate sharply. The noise and accompanying lights are meant as a training aid; slowing down and changing to a less aggressive driving style means the device stays quiet.

As a result, we have seen the number of accidents across the commercial vehicle fleet fall by 14 per cent. In the same period, the number of miles travelled for every speeding event had doubled. The Company has also seen a 10 per cent improvement in fuel efficiency and a 4 per cent drop in carbon emissions across the fleet.

We are now looking to consult with drivers of our fleet of 600 company cars about installing telematics in their vehicles too. Although smaller than the commercial fleet, it records more speeding instances and a greater range of accidents.

Driving will remain a focus for us in the coming year, with new initiatives including a Permit to Drive system.

THE YEAR IN REVIEW

GETTING IT
RIGHT FOR YOU

INVESTING
FOR
TOMORROW

THE OUTCOME WE WANT TO
ACHIEVE FOR CUSTOMERS:

PROVIDE THE SERVICES OUR
CUSTOMERS EXPECT OVER THE
LONG TERM THROUGH RESPONSIBLE
ASSET STEWARDSHIP

PERFORMANCE HIGHLIGHTS

- ✓ Lowest ever number of Category 3 pollutions
- ✓ Best ever compliance at our Water Recycling Centres
- ✓ ADEPT President’s Award for our partnership work to prevent flooding on Canvey Island
- ✓ Launch of our new Pollution Watch campaign

A successful first year of AMP6

This AMP, we have committed to a £2 billion programme of investment. This will be carried out by the four new delivery alliances we appointed last year.

Together, these alliances will help provide our services for the next 15 years, and all have signed up to deliver the outcomes agreed with our customers and the Love Every Drop goals that drive us towards those outcomes. This year, we have seen them start to embed both their processes and the relationships that will be critical for the delivery of our programme over the rest of this AMP period.

These alliances are different from those elsewhere in the industry, with an unparalleled degree of integration and alignment, and the opportunity for longer-term collaboration. To deliver the outcomes our customers want demands the closest possible collaboration between us, our suppliers and our contractors. Experience has also shown us that close collaboration gives us the most benefit in our capital delivery frameworks.

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

At the same time, the industry has moved to a totex incentivisation model that encourages a more balanced approach to investment decisions and allows us to focus on the best, most efficient and sustainable long-term solutions for our assets throughout their operational lives.

Resources used

Resources enhanced

Social and
relationship

Financial

As a result, we have currently identified further efficiencies of up to £10 million. This continues to allow us to deliver our investment programme at best value while delivering our obligations, improvements to customer service and a shareholder return. It will also be possible to pass some of the efficiencies back to customers in the next period.

Future investment in AMP6

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

- Improve our ability to move water around the region
- Protect our existing supplies through improved detection and repair of leaks
- Support growth in our region and work with developers
- Ensure a continuous supply for our customers.

We will continue to invest to safeguard customers' supply in vulnerable areas of our region, both alone and in partnership with other water companies.

Looking forward to the rest of this five-year period, we want to maintain efficient, low carbon delivery and push further, with a new drive around water footprinting. We also want to fully embed our new totex principles and exploit the opportunities this gives us to drive greater levels of value and to do the right things for our assets.

THE FOUR ALLIANCES

INTEGRATED MAIN WORKS CAPITAL (IMWC) – THE @ONE ALLIANCE

The largest of the alliances includes Balfour Beatty; Barhale; Grontmij; MWH; MMB, a part of Mott MacDonald; and Skanska, alongside Anglian Water. It covers the design and build of all types of complex construction and refurbishment projects. It retains the @one Alliance name it has had since being formed in AMP4.

INTEGRATED OPERATIONAL SOLUTIONS (IOS)

This includes Morrison Utility Services, Barhale and Kier, alongside Anglian Water. IOS works to provide an agile and flexible service, refurbishing, optimising and finding the best totex solutions for our existing assets. These are projects beyond the scope of routine maintenance, but less complex than the big construction projects undertaken by the @one Alliance.

INTEGRATED METERING AND DEVELOPER SERVICES (IMDS)

This includes Kier and Clancy Docwra, covering industrial and domestic metering, new housing and estate infrastructure and water efficiency audits. This includes delivery of our Wave 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 over this AMP.

INTEGRATED MAINTENANCE AND REPAIR (IMR)

This alliance covers network infrastructure maintenance for both Water – with partners Kier and Clancy Docwra, and Water Recycling – with Claret Civil Engineering, Danaher & Walsh, Clancy Docwra and Public Sewer Services.

The alliance's main focus this year has been on the delivery of stretching ODIs, including leakage, SIM, interruptions to supply, pollution and sewer flooding.

WORLD-CLASS ASSET MANAGEMENT

We were one of the first companies in the world to achieve ISO 55001 accreditation, the new international standard in asset management. This year, we again retained that accreditation and also continued to demonstrate continuous improvement in our approach to asset management.

The standard is awarded to businesses that effectively and efficiently manage their approach to asset management,

whether it's physical infrastructure, management processes, maintenance or planning.

We were also recertified in the previous standard, PAS55, which has been widely adopted by utility, manufacturing, mining and transport companies across the world. The international standard builds on this and has been developed with organisations from more than 30 countries.

(l-r) Supply Manager Darren Livock and Energy Optimisation Engineer Jonathan Stimpson work to optimise energy use at Heigham Water Treatment Works in Norwich.

Serviceability - keeping our assets fit for purpose

A good service relies on well-maintained assets - the pipes, pumps, works, equipment and buildings that allow our business to operate. Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in assets to keep their service at an acceptable level.

A number of ODIs have been put in place to ensure strong service in this area, with substantial penalties and rewards dependent on our performance. You can find a detailed breakdown of these ODIs and our performance against them on page 67.

Water

Throughout the year, we have delivered good performance at our water treatment works and across our networks, although there were slightly more water treatment works coliform failures than last year, with eight compared to six in 2014. All other measures were comfortably within control limits.

As noted on pages 25 and 37 of this report, our performance on interruptions to supply has been very strong this year, with the average time this year at 8 minutes and 12 seconds, compared to a three-year average for AMP5 of 19 minutes, 10 seconds.

Water recycling

The operation of our Water Recycling Centres has continued to improve in 2015, resulting in our best compliance performance to date. We ended the year with six failing works, which is a reduction of three compared to the nine failing sites in 2014.

This strong performance is a result of proactive management of our Water Recycling Centres. Data from samples taken on site are entered directly on to our system through laptop computers. This measurement point data is combined with data from telemetry and lab samples to produce regular reports that let us see how individual sites are performing in almost real time.

Such close monitoring allows us to respond rapidly to risks at our sites. It has also improved efficiency and reduced costs. The same is true of our Chemical Optimisation Project, which has improved efficiency by allowing us to maintain compliance while challenging the amount of chemicals used on our sites.

We have a large number of schemes underway at our Water Recycling Centres to ensure compliance with the Urban Waste Water Treatment and Water Framework regulations. Delivery of these schemes is covered by the Water Recycling Environmental Compliance ODI. No schemes were completed in this first year of the AMP.

POLLUTION INCIDENTS

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

371	144
TARGET (FOR 2015/16)	ACTUAL

Preventing pollution

This was another good year for the performance of our sewerage network, with our predictive analytics being used to effectively target our maintenance work. The modelling tool uses information on past pollutions to predict which parts of our network may have problems in the future.

The number of Category 3 incidents fell dramatically in 2015, from 390 to 144, its lowest ever level. As well as predictive analytics, this was due to lots of proactive work, well-targeted, planned maintenance, and changes to our reporting protocol, as well as a more benign year weather-wise.

The Pollution ODI target is to have no more than 298 Category 3 incidents by 2017/18. This year's performance puts us well ahead of that target and of our first-year target of 371.

There were no Category 1 incidents this year, although the number of Category 2 incidents rose slightly from seven to 10. The circumstances around all the Category 2 incidents have been analysed and detailed plans drawn up to prevent repeats.

This year saw some of the largest ever penalties following prosecutions by the Environment Agency. The courts have made it clear that failure to bring about improvements will lead to fines large enough to have a significant impact on water company finances.

Pollution Watch

Our new campaign, Pollution Watch, aims to raise public awareness about the causes of sewage pollution, the impact it has and the signs to watch out for that might indicate a problem.

A phone line has been set up for people to call if they spot any of these warning signs. This provides a clear first port of call, and means we can be alerted to possible pollutions quickly.

We will continue to challenge and evolve our approach to drive performance towards our goal of no pollutions.

Sewer flooding

The new AMP has seen us adopt a new approach to the problem of flooding from our sewers. Money has been spent on measures to reduce the risk of flooding, rather than on removing that risk completely through large-scale engineering schemes.

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

We have focused our efforts in areas that have seen more than one flood in a 12-month period. Measures have included the installation of non-return valves in pipes, providing flood barriers for homes, and changes to the maintenance and operation of pumping stations. Households have also been provided with Keep it Clear information packs, explaining the problems that can be caused by sewer blockages and the steps people can take to reduce them and protect themselves from flooding.

INTERNAL FLOODING

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

	TARGET (BY 2019/20)
	448
NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)	ACTUAL
	414

THE YEAR IN REVIEW

Our performance in this area is measured against two separate ODIs, which look at the three-year average for incidents of internal and external flooding from our network.

Although we are only one year into the AMP, we can look at a three-year average that includes the last two years of AMP5. This gives us a three-year average for internal sewer flooding of 414 against a target of 448 by the end of AMP6. Taking the last year in isolation, the number was 411.

Looking at the number of externally flooded areas, our three-year average was 5,645 against a target of 6,159 by the end of the AMP. Taking the 2015/16 numbers alone, we ended the year on 5,364.

This is an encouraging start, although this year has not seen the kind of intense rainstorms that have overwhelmed some sewers and led to flooding in the past. Nevertheless, such extreme weather remains a threat.

All incidents of sewer flooding count towards our performance regardless of the cause.

EXTERNAL FLOODING

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

NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

TARGET (BY 2019/20)

6,159

ACTUAL

5,645

Private pumping stations

In October, Anglian Water will become responsible for an estimated 2,400 privately owned sewage pumping stations. This follows the transfer of private sewers into water company ownership in 2011. The Government believes water companies are best placed to manage and maintain these stations for the benefit of customers and the environment.

We are required to adopt any pumping station that:

- Was built before 2011
- Serves more than one property
- Pumps to an existing Anglian Water sewer.

To make sure the transfer does not result in a sudden, dramatic increase in workload, we have been working to find and adopt as many as we can before the transfer date.

This is a big task, which first involves finding and seeking permission from the current owners. Often this means requesting data from the companies that currently maintain the pumping stations for them. In other cases, the owners may be unaware their property is served by a private pumping station or that they are responsible for it.

We have been running a publicity campaign through our website, adverts, radio commercials, articles and information on customers' bills to help us track down as many pumping stations as possible.

By March, we had identified 1,345. Of these, we have surveyed 1,101 and found 754 that meet the transfer criteria. The specifications and condition of these stations varies widely. We are working to bring all of them into a safe and serviceable condition and to connect them to our telemetry system, which provides around-the-clock monitoring.

Many of these pumping stations are on private land, often in customers' gardens or in the highway, which can make them difficult to get to. This also means a much more customer-facing role for our Maintenance Teams, and how we perform will have a big effect on customer satisfaction as well as reducing the risk of flooding and pollution from these sites. Advice, guidance and training are being provided to make sure the transfer is a positive change for our customers, removing the burden and worry of having to look after these pumping stations.

Clearing the backlog

The last year saw a major restructure of our Maintenance Services Teams as we worked to clear a backlog of more than 20,000 jobs that had built up during the previous AMP. Problems caused by an increased workload had been made worse by difficulties recruiting and retaining employees, organisational issues and extreme weather, including the wettest winter on record.

Such a backlog clearly posed a risk to the serviceability of our Water Recycling network and an action plan was put in place to remove it. Additional resources were approved, and reviews carried out into all outstanding work orders and the Maintenance Services structure.

New teams were set up to provide clear areas of responsibility. Planned teams now make sure all planned work is completed to time, cost and quality, freeing up the rest of Maintenance Services to respond to alarms and other reactive work. By March, the backlog had been reduced to 2,200 and continues to shrink.

Fighting the floods

Flooding from surface water and sewers is a complex problem. It requires close co-operation with other organisations to reduce the threat of disruption to our services. We collaborate with the Environment Agency, Internal Drainage Boards and the 21 Lead Local Flood Authorities (LLFAs) in our region to support flood prevention projects with benefits for our customers.

This approach saw us make £8.4 million of partnership funding available for AMP6, and several schemes that will help protect customers from flooding and serviceability issues are already being delivered by our partners.

Representatives of the Canvey Island Flood Partnership present their updated, six-point plan to the Water Minister Rory Stewart.

Award-winning work

We are a key member of the Canvey Island Flood Partnership, which has been commended for its work to resolve long-term flooding issues in Canvey Island, Essex.

Joint funding has paid for work to map the island's private watercourses and a comprehensive programme of cleaning, maintenance and repair of its drainage network. At the same time, Anglian Water has surveyed, jetted and repaired thousands of metres of sewer.

In November 2015, the Water Minister Rory Stewart MP was presented with an updated version of the Partnership's long-term strategy for Canvey. This is a £25 million, six-point plan to build long-term resilience and further reduce future flood risk on the island.

The Association of Directors of Environment, Economy, Planning and Transport (ADEPT) presented the Partnership with its President's Award for Resilience in recognition of the benefits to customers and communities of working in partnership to manage flood risk at a local level.

The rest of the industry is now looking at Anglian Water to understand how to deliver an effective partnership funding programme, and we continue to look for other, innovative ways of funding projects.

LOWESTOFT – MANY JOBS, ONE SOLUTION

In the last two years Lowestoft has been hit by two significant floods, the first following the tidal surge in December 2013 and the second caused by heavy rainfall in July 2015.

Anglian Water has helped establish a flood steering group to draw up and manage a plan to protect the town and our customers. As part of that plan we have already spent more than £2 million to upgrade the sewer network and

large parts of the surface water system. Another £500,000 was spent on flap valves around the harbour to stop salt water backing up into the sewers during high tides.

We have also worked with the Environment Agency, Internal Drainage Board and local authorities to clear and improve the Kirkley Stream, which flooded during the 2015 storm, inundating nearby homes.

Sustainable solutions

Part of our challenge as a business and as a society is to find more sustainable, less carbon-intensive ways of working. Delivering sustainable drainage systems (SuDS) is one way in which we can start to put that into practice.

Instead of using traditional methods such as concrete storage tanks and bigger pipes to increase the capacity of our sewer system, the delivery of SuDS challenges us to look at alternatives. These include the use of rain gardens, water butts, or channelling excess water away from customers' properties.

We can also look at lower carbon engineering solutions like relining sewer pipes instead of replacing them. This cuts the amount of surface water infiltrating into the sewers and taking up space more properly used to carry sewage.

We have set ourselves a target for AMP6 to deliver 25 per cent of our sewerage capacity schemes using sustainable solutions like these.

This equates to 50 schemes and will be a challenge as such an approach has never been tried before, and we have started slowly with two schemes forecast and delivered this year. Our aim is to deliver 48 more schemes over the course of the AMP.

We see this as an opportunity to help the business meet its outcomes and Love Every Drop goals, delivering efficiencies and value for money for our customers.

PERCENTAGE OF SEWERAGE CAPACITY SCHEMES USING SUSTAINABLE SOLUTIONS

After delivering trial schemes in 2015/16, we are on track to meet our 2019/20 target. We are aiming for 18 per cent of our schemes to use sustainable solutions in 2016/17.

TARGET (BY 2019/20)

25%

ACTUAL

4%

POOLING RESOURCES IN LINCOLN

We are contributing towards the cost of a scheme that will reduce the risk of sewer and surface water flooding for more than 70 homes in the Stamp End area of Lincoln.

Storms in 2007 and 2009 caused flooding to streets and homes and on one occasion blocked access to Anglian Water's offices in the city, causing major disruption to our operations.

We have entered into a partnership with Lincolnshire County Council, the Environment Agency, the Witham Third Internal Drainage Board and others, to jointly fund an £800,000 package of drainage improvements that will reduce the risk of future flooding.

The work is being done as part of the County Council's Common Works Programme, which brings together all those with responsibility for managing flood risk in the county. The Programme addresses local priorities, raising funds for schemes that, while very important to the people affected, might not qualify for national funding.

SERVICEABILITY IN FOCUS

To continue to provide the services our customers expect now and over the long term we need to look after our assets (e.g. equipment, pipes and buildings). We use the term serviceability to describe the ability of our assets to continue delivering a reference level of service to customers.

Serviceability is assessed by 13 measures, split over four types of asset.

For each measure we agree a normal or 'reference level', which is typically close to the best historical performance. There is also an 'upper control limit', which is the worst level of performance that can be accounted for by reasonable natural variation. We must make sure that we don't perform worse than this upper control limit, or we risk incurring a penalty.

Full details of all these measures are in the Annual Performance Report on page 206.

SERVICEABILITY

For the serviceability measures, we use a traffic light system (red, amber, green) to show performance. This year, all but one of our measures were comfortably within control limits. Our one amber measure is mentioned on pages 32 and 62.

ABOVE GROUND/NON-INFRASTRUCTURE

WATER

- GREEN** **TURBIDITY**
(CLOUDY WATER)
- GREEN** **COLIFORMS**
(AT RESERVOIRS)
- AMBER** **COLIFORMS**
(AT WATER TREATMENT WORKS)

WATER RECYCLING

- GREEN** **FAILING WATER RECYCLING CENTRES**
(BY NUMBER)
- GREEN** **FAILING WATER RECYCLING CENTRES**
(BY SIZE)

BELOW GROUND/INFRASTRUCTURE

WATER

- GREEN** **INTERRUPTIONS**
(> 12 HOURS)
- GREEN** **BURST MAINS**
- GREEN** **CONTACTS: DISCOLOURATION**
- GREEN** **DISTRIBUTION MAINTENANCE INDEX**

WATER RECYCLING

- GREEN** **SEWER COLLAPSES**
- GREEN** **SEWER BLOCKAGES**
- GREEN** **POLLUTION INCIDENTS**
- GREEN** **INTERNAL FLOODING**

THE YEAR IN REVIEW

GETTING IT
RIGHT FOR YOU

FAIR PROFITS

THE OUTCOME WE WANT TO
ACHIEVE FOR CUSTOMERS:

A FINANCIALLY
RESPONSIBLE, EFFICIENT
BUSINESS EARNING
FAIR PROFITS

PERFORMANCE HIGHLIGHTS

- ✓ Average bill reduced by 7% in real terms in 2015/16, the largest reduction of any water and sewerage company
- ✓ Step change in performance allows us to exceed targets in key areas and absorb unfunded costs
- ✓ Total direct and indirect tax contribution of £203 million

Lowering bills

In December 2014, we agreed to Ofwat's Final Determination on our Business Plan for the April 2015 to March 2020 period.

We reduced our average bill by 7 per cent in real terms in 2015/16, the largest reduction of all the water and sewerage companies in the industry. Average bills are expected to stay broadly flat, before inflation, for the rest of AMP6.

This all followed our decision to limit the average bill price increase in 2014/15 to the Retail Price Index (RPI) measure of inflation - below the level allowed for by the regulatory settlement.

A number of factors have made this possible:

- We have continued to become ever more efficient in our capital delivery and our operations. In the AMP6 price review process we have passed these efficiency savings on to customers through lower bills.
- We have kept a tight focus on our cost base for AMP6, and despite increasing costs in some areas outside our direct control, and a growing customer and asset base, we are managing to limit cost increases.
- The industry has been given a lower return on its Regulatory Capital Value and thus less revenue, which also means lower bills.
- Customers have responded to our Drop 20 campaign to use less water. We have also kept leakage levels well below the target set by our regulator, and this means we are putting less water into supply than 25 years ago, despite an increase in our region's population. That's less water to abstract, treat and pump around our region, which means lower cost and better use of a precious resource.

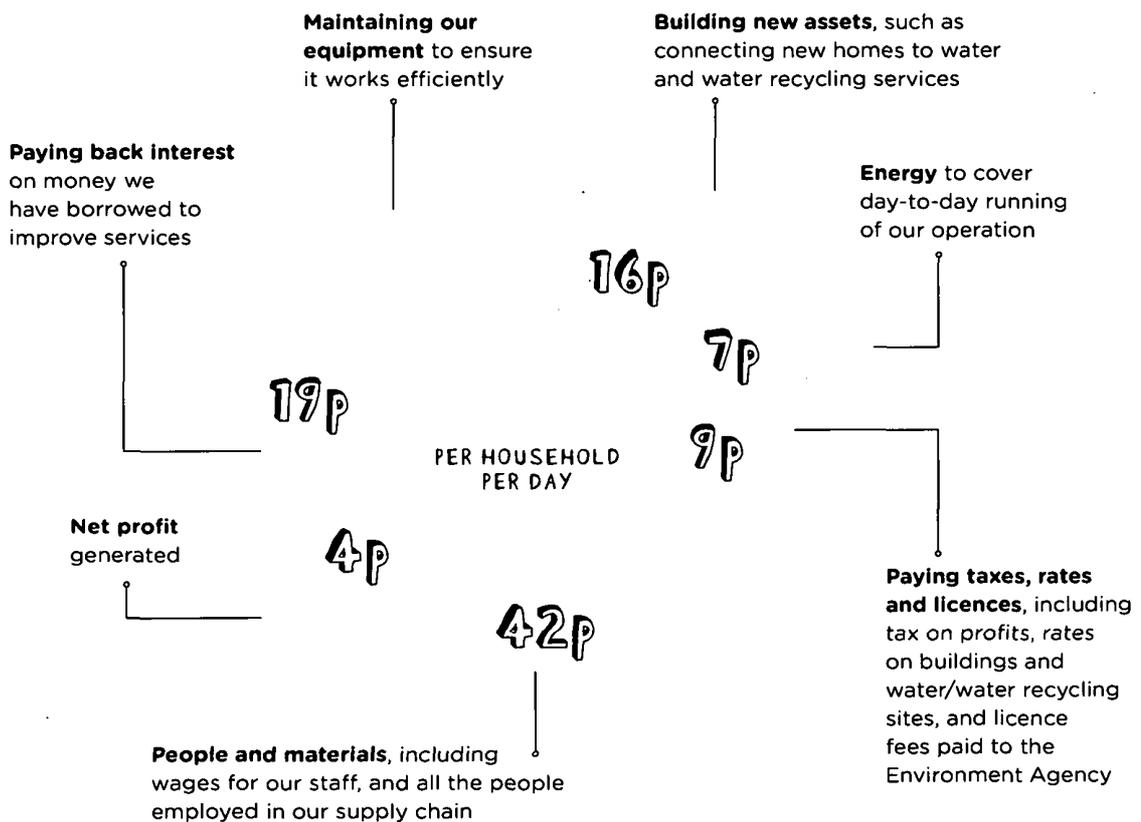
Resources used

Resources enhanced

Intellectual

Financial

Based on the average household bill in 2016/17, water and sewerage charges will cost £1.12 per day. This is how we spend that money:



More with less

As well as a reduction in revenue due to falling bills, we also received a challenging determination for AMP6. Despite this, a step change in performance this year has allowed us to exceed our targets in a number of key areas.

All our ODIs have met their base targets for the year, with leakage, pollutions and interruptions to supply achieving maximum - or close to maximum - reward as a result of exceptionally strong performance.

We have also been able to absorb unfunded cost pressures and meet complex regulatory outputs such as those around the preparation for non-household competition next year.

These are results that really deliver for the business and for our customers.

Where does customers' money go?

Keeping bills low while maintaining investment in the things our customers value most was a key aim of our Business Plan. We know people have been feeling the pinch in recent years and that whatever we invest is ultimately underpinned by customers' bills. So it is important to show how that money is being spent and how it is delivering value. We are proud of our record on efficiency and delivering value to customers. When the industry was privatised in 1989, Anglian Water had one of the highest average bills in the industry. By 2020, our average bill will be lower than the industry average.

Attracting investment

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

When inflation outturns at a significantly lower rate than assumed at a determination, this can adversely affect the Company's finances. Conversely, when inflation outturns at a higher rate it can benefit companies, and this may be perceived as unfair. However, 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.

Our dividend policy

The appropriate level of dividends for a company like ours is influenced by a range of factors, including the ownership and performance of the Company.

Our dividend policy is to identify the cash available for distribution, having set aside enough to meet our liquidity requirements for funding our operations, servicing the capital programme and also repaying maturing debt. The dividend policy is also limited by ensuring there is adequate headroom in our projections of financial covenants and any gearing targets set by our Board.

In assessing any dividend payment, the Independent Non-Executive Directors have to consider business performance forecasts and the potential impact of external factors in the economy, as well as the regulatory environment, on forecast cash flows.

We believe this cash-based approach provides an acceptable and fair return to the equity investors while ensuring the liquidity requirements of the business are fully met. It has also proved resilient to the impacts of the financial crisis; to the RPI falling below zero; in responding to the drought in 2012; and in absorbing the costs of new obligations and regulatory changes.

Our role as a good corporate citizen

Anglian Water takes its responsibilities as a good corporate citizen very seriously.

We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Our effective rate of corporation tax is less than the statutory rate due to HM Revenue & Customs (HMRC), primarily because of incentives available for capital investment, and due to the interest we pay to fund 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 economic recovery and growth of the regional economy.

The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Customers also benefit from the deferral as it helps to keep bills lower.

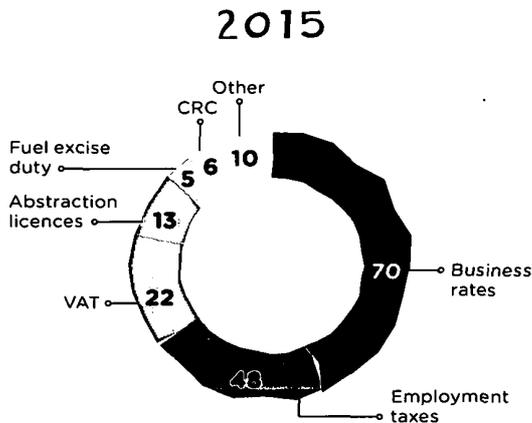
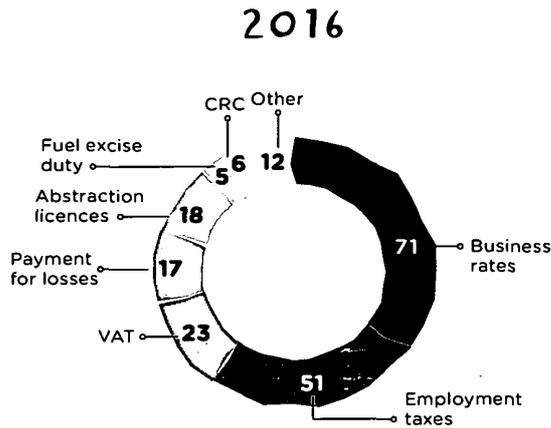
We confirm that we comply with the CBI Statement of Tax Principles, which aims to drive greater tax transparency in business and encourages companies to explain what they do in a straightforward and accessible narrative.

Further, from a tax perspective, HMRC views Anglian Water as a low-risk company, based on its ongoing review and assessment of our tax procedures. The Company's total tax contribution for the year extends significantly beyond the payment for corporation tax.

Total tax paid or collected in the year to 31 March 2016 amounted to £203 million (2015: £174 million), of which £60 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes.

AWS total tax contribution

Figures in £ million



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

- Business rates of £71 million paid to local authorities. This is a direct cost to the Company and reduces profit before tax
- Employment taxes of £51 million, including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of £14 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets
- VAT of £23 million collected and paid to HMRC. VAT has no material impact on profit before tax
- Abstraction licences and direct discharges of £18 million. This is a direct cost to the Company and reduces profit before tax
- Payments of £17 million made to other AWG group companies to compensate them for tax losses surrendered to the Company. This has no impact on profit before tax
- Fuel Excise Duty (FED) of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- Carbon Reduction Commitment (CRC) of £6 million was also charged to operating costs, reducing profit before tax.

RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

Risk appetite

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

The Board oversees risk management and, as part of this role, it reviews the main elements of our risk management processes and sets the Company's risk appetite. Risk appetite establishes the level of risk that the Board is prepared to accept at any given time in order to achieve the Company's strategic objectives. Anglian Water Services has a structured approach to risk assessment, with the Board defining the appetite for risk in respect of all its key risk categories in the context of its obligations to provide an essential and efficient service to its customers and to keep its employees safe. The Board's appetite for risk helps management to determine the mitigating activities required to manage risk likelihood and impact to within acceptable levels.

Principal risks are identified and specific risk tolerance levels set for each risk. These principal risks are discussed below. There may be occasions when risk is accepted, but this is on the basis that risks are well understood and can be appropriately managed. The Board regularly reviews the Company's internal controls and risk management processes. The Company has adapted its processes during the year to ensure compliance with the Anglian Water Services 2015 Corporate Governance Code (the 'Code') which reflects changes made to the UK Corporate Governance Code in September 2014.

Risk management

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

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

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

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

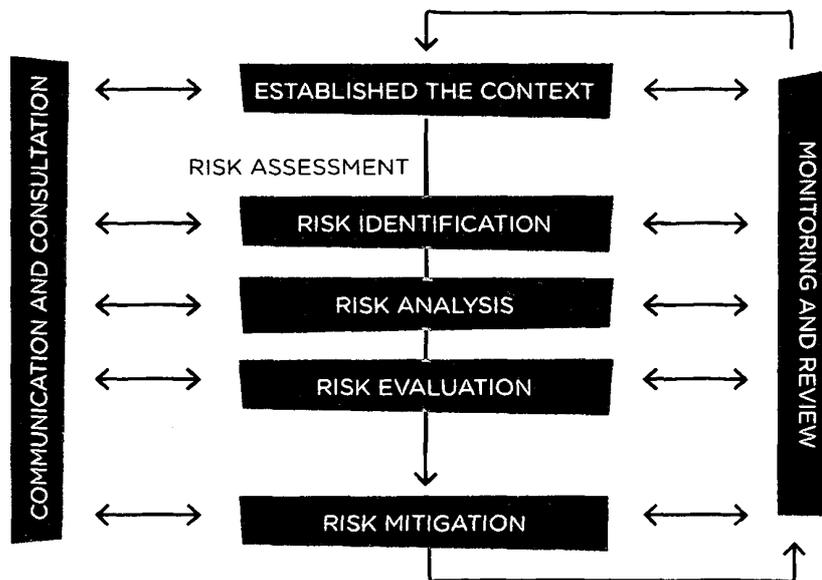
The most significant risks are escalated from the business unit risk registers to be recorded in our top-tier risk register, which is reviewed in detail twice a year by the AWS Board. In the course of the past year, the AWS Board has also reviewed the top-tier risks and has considered and approved changes in the approach to the management of risk that are designed to further integrate risk management within the business. In the intervening months, top-tier risks are reviewed by the Board on a dynamic basis as part of discussions regarding the delivery of the Company's strategic objectives.

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

RISK MANAGEMENT PROCESS

Our risk management process identifies, assesses and manages our risks. These risks are broadly categorised as safety, operational, financial, regulatory, and compliance with

current regulations and law. Risks are formally identified and mapped to ensure consistency and completeness. The diagram below sets out the overall risk management process:



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

The Board has met regularly during the year and has discussed the level of risk that it is willing to accept in respect of our 10 strategic outcomes for customers and the environment.

For each strategic outcome we have identified the principal threats that might put the achievement of those outcomes at risk.

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

RISK MANAGEMENT

Principal risks

Emerging from the top-tier risk register are a number of significant risks (described as principal risks in the Code), which we have linked with our agreed outcomes, as detailed below. Risks are not listed in any order of priority.

CLIMATE CHANGE AND FLOODING

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

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. While we are seeing changing weather patterns affecting day-to-day operations, this risk has not significantly changed over the past year. It is still vital that we prepare for severe weather, both today and in the future.

MITIGATION

Our senior-level Climate Change Steering Group assesses the implications for our business and has visibility of the delivery of our mitigation and adaptation strategies. Climate change scenarios are

being integrated into the decisions about future investment and our Integrated Drainage Strategy identified investment at 35 sites for AMP6, including investment to protect us against further flood risk. This is in addition to the money we invested at 20 water treatment works in AMP5.

Flood Emergency Response Plans (FERPs), including evacuation and power-down processes, are in place and are regularly reviewed for both Water and Water Recycling higher-risk sites. In addition, we work with other agencies, including the Environment Agency, to understand and use flood risk warning technology.

We continue to invest to deliver our target of reducing leakage by some 20 MI/d to 172 MI/d by the end of AMP6, which helps mitigate the impact of extended dry periods.

FINANCING OUR BUSINESS

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

We are funding a totex programme of £5 billion in AMP6 and have a gross debt of £6.3 billion to manage and service. Despite overall volatility in the financial markets, we consider that our risk in financing our business has not increased over the past year, however it is critical that we have robust financing and liquidity management arrangements in place.

MITIGATION

Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. We are funded predominantly by debt in the form of long-term bonds and other debt instruments, with equity (shares) making up the balance of our regulatory capital value. Net debt accounts for approximately

82 per cent of our regulatory capital value as at 31 March 2016 on a covenant basis. The debt-funding structure was established in 2002 and has resulted in our cost of capital being consistently lower than the industry average, producing lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity. We manage our financing risks through regular senior level meetings held with banks, ratings agencies and bondholders, along with our internal monitoring of our Treasury Strategy, Liquidity, Energy and Covenant Policies, through our Financing, Treasury & Energy Policy Group.

REGIONAL GROWTH

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

As one of the fastest-growing areas in the UK, managing the forecast rise in population in our region is one of our most significant long-term challenges. As economic conditions in the UK improve, the number of new developments is increasing and meeting the growth in demand for new services remains a key area of focus for the business. Current growth in our region is in line with our AMP6 plan and we have not seen an increase in this risk over the past year.

MITIGATION

We invest considerable effort in forecasting our supply and demand

requirements at a local and a regional level for the next 25 years. We continually assess our investment options to identify the most cost-effective combination of new water resources, network enhancements and demand management measures to meet this challenge. We are also championing the use of sustainable drainage techniques in place of piped systems, as a more environmentally sound way of managing surface water in our growing region. We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources.

WATER SECTOR REFORM AND OTHER LEGISLATION

OUTCOMES AFFECTED BY THIS RISK:

All areas of our business have the potential to be affected by this risk

DESCRIPTION

The Water Act 2014 will enable all business customers to choose their retail supplier from April 2017. The Act also makes provision for further upstream reforms.

To facilitate the new retail market and enable Ofwat to set more effective incentives for different parts of the value chain, Ofwat has also set separate price controls for retail and wholesale activities. We need to keep abreast of all other new legislation passed by Parliament and ensure we comply with existing laws that affect all businesses, including the Competition Act and the Bribery Act. The impact of this risk has not changed over the past year. However, we have focused on further mitigation actions to minimise future risks.

MITIGATION

We have been extensively and actively involved at all levels of the Non-Household Market Programme to support the design and development of the retail market. We have also been instrumental in creating Market Operator Services Ltd (MOSL), a private company that will procure the central IT systems for the new retail market.

The creation of a Wholesale Service Centre (WSC) within our Wholesale Services business unit will provide a single point of contact for all non-household retailers into Anglian Water Services.

The WSC will ensure that all retailers are treated fairly and equally, and make sure we are compliant with the new market codes. We have structured our activities so that we comply with Ofwat's four separate price controls.

We carefully manage compliance with current legislation (for example, the Competition Act 1998) and continue to monitor new legislation to ensure that we are fully compliant. Where possible, we seek to influence forthcoming legislation, including the debates on upstream and abstraction reform. To support our management of compliance we have numerous business controls and processes that are supported by our online training system, which we have used to ensure adequate awareness across the business of the risks associated with breaches of legislation such as the Competition Act, Data Protection Act and Bribery Act.

POLLUTIONS

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

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

Such incidents are classified by the Environment Agency and, depending on their severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to the Company, and the fines they attract, make them a significant risk. We have made good progress over the past year in reducing pollutions, however the impact of a pollution on the Company has increased due to the changes in sentencing guidelines.

MITIGATION

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

- Spending of around £5.8 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions
- A priority, 'blue light' or fast response for areas with historical pollution risk and/or significant environmental sensitivity
- Investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock
- Continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance
- Reducing blockages, which are responsible for the majority of pollutions. A FOG (fats, oils and greases) and unflushables campaign aimed at changing customer behaviours continues to drive down blockages, resulting in an average of 32 per cent fewer blockages in the 24 areas targeted up to March 2016
- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

RISK MANAGEMENT

FAILURE TO DELIVER OUR AMP6 PLAN

OUTCOMES AFFECTED BY THIS RISK:

All areas of our business have the potential to be affected by this risk

DESCRIPTION

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

Our performance is linked to significant penalties or rewards under the new system of ODIs. This represents a significant financial risk to the business if we fail to meet the required standard in a number of areas. Some of the largest potential penalties are attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies. At the same time, we will also be judged by our customers, who compare our service with that of the top UK brands. They expect us to be as good, if not better. So there is also a reputational risk in failing to keep pace with growing customer expectations.

MITIGATION

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

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

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

Examples of projects we have implemented include the following:

- Integrating our supply chain into the business; for example, through four main delivery alliances
- Developing our strategies to reduce costs across our supply chain, refining our procurement and sourcing strategy
- Pursuing energy efficiency and energy optimisation of our treatment and distribution systems, implementing new and leading monitoring systems to improve energy consumption
- Encouraging business units to implement smaller, locally driven initiatives, drawing on our Love Every Minute programme (based on Lean and 6Sigma methodologies)
- Carrying out rigorous root cause analysis early on in our capital delivery process to ensure we provide the right whole-life cost solutions
- Focusing on both cost and carbon, and the relationship between them, to find innovative ways of providing sustainable solutions
- Developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site
- Investment in the delivery of our ODIs to maximise success for our customers. For example, Interruptions to Supply, Leakage, Catchment and Coastal Management and Pollutions.

Our efficiency in delivery has been essential to mitigate the impact of additional costs that were not included in prices, for example the adoption of private pumping stations in 2016.

Being successful in AMP6 will require Innovation, Collaboration and Transformation to continue delivering cost efficiencies, while delivering strong performance on our ODIs.

REPUTATION

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

Our Company relies on the goodwill of customers and stakeholders. Our Keep it Clear campaign and water efficiency goals are just two of the areas in which we need the help of customers to succeed. Unwanted media attention, be it from traditional or social media, has the potential to damage our reputation and erode that trust.

MITIGATION

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

work we carry out across communities and the environment.

It is important that our senior managers and others in key roles around the business are confident in dealing with the media and in getting our messages across. We have a media training programme in place for Executive Directors and key individuals identified from our internal messaging matrix.

We carry out daily monitoring of both traditional and social media to identify corporate and brand-related issues. Press cuttings are circulated to all employees and we work to raise awareness of the impact adverse media coverage can have and of the need to raise high-risk issues early.

HEALTH AND SAFETY

OUTCOMES AFFECTED BY THIS RISK:

All areas of our business have the potential to be affected by this risk

DESCRIPTION

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

MITIGATION

Health and safety of our workforce, partners and the general public is a key

priority. The Management Board review health and safety performance and associated actions monthly, immediately reporting any significant incidents to the Board. Performance is also monitored through our ISO 18001 accredited Safe and Well Management System, with six monthly external reviews by LRQA. Our management systems track near misses and actions from audits as well as providing access to current policies and procedures.

Throughout the business we have a series of health and safety committees that report into the Director-led Company Health and Safety Committee, so that issues and concerns can be effectively managed.

Each year, the Board signs off a targeted Annual Statement of Intent with specific actions and areas of focus for the business.

TALENT AND SUCCESSION

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

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. There has not been a change in this inherent risk over the past year.

MITIGATION

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

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

Senior managers, key skills and talent are covered by Long-Term Incentive Plan (LTIP) schemes, retention bonuses and non-financial retention arrangements, including active development plans.

Executive management carries out regular and formal reviews of our succession-planning process and talent pipelines, using external advisors where appropriate.

RISK MANAGEMENT

WATER QUALITY

OUTCOMES AFFECTED BY THIS RISK:

DESCRIPTION

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

MITIGATION

We have extremely robust Policies and Standards for Water Supply Hygiene (POSWSH) in place to maintain water quality at our treatment works and in our network of pipes and water storage points.

There is a rigorous regime of inspections and sampling, alongside an AMP6 capital maintenance programme for enhanced disinfection protection, sample point improvements and replacement of critical instruments.

A monthly Storage Point Delivery Group and weekly senior manager-led conference calls track the progress

of external and internal inspection programmes. The Board reviews key targets and quality standards.

Regular audits are carried out both internally and externally. Externally, our processes are audited annually by LRQA to ISO 9001 Water Services and ISO 22301 International Standard Business Continuity. UKAS audits our laboratory as part of ISO 17025. A comprehensive internal audit programme is signed off each year by the Director of Water Services and his senior leadership team, and is delivered by members of the Water Quality and the Risk and Systems Teams. In addition, our Water Services Compliance Monitoring Group and Water Quality and Environmental Compliance Group regularly review performance against key water quality parameters.

We also ensure operational and laboratory employees are trained and competent. Our Licence to Operate programme sets benchmarks for competency and provides qualifications awarded by professional bodies such as the Science Council.

CYBER SECURITY AND DATA PROTECTION

OUTCOMES AFFECTED BY THIS RISK:

All areas of our business have the potential to be affected by this risk

DESCRIPTION

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 increased and we have responded accordingly to protect our data and information. We hold personal data on all our customers and employees, which is used for a wide variety of purposes, and we take our responsibilities for protecting that data very seriously, working with and taking guidance from the Information Commissioner's Office (ICO).

MITIGATION

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

have the right measures in place to counter the threats we face. An ongoing awareness and education campaign is in progress to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. Additional vetting of new employees and suppliers has been implemented to support our security improvements.

We have a clear governance strategy to ensure compliance with the Data Protection Act. Two Directors jointly chair our Information Governance Forum, which effectively carries out the role of a Senior Information Risk Officer (SIRO). Each business unit has a representative on the Forum with responsibility for ensuring their business unit complies with the Act. Training is mandatory for all employees who deal with personal data and enhanced training has been provided to Forum representatives. We also assess the risks that might arise where third parties require access to personal data in order to supply a service to us.

Significant failings, weaknesses and areas of concern

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

omission that, if unchecked, has the potential to result in significant financial, operational or reputational damage to the business. A red, amber, green (RAG) approach is applied in assessing the risk and the adequacy of the mitigating action, and these are established following assurance throughout the year provided by internal and external audits and formal Board review. A summary of the RAG is shown opposite:

RED any mitigating action/s and any business controls are found to require significant improvements to manage the risk

AMBER any mitigation action/s are behind in delivering the targeted risk level and any business control/s are found to be not fully effective; or the risk is emerging and action is in place to develop the mitigation actions

GREEN any mitigating action/s are on course to meet the targeted risk level and the business control/s are in place and effective.

Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2016 no red risks were reported.

Business viability

As one of the 10 regional water and sewerage services companies operating in the UK, Anglian Water's prices are set by the industry regulator Ofwat for five-year Asset Management Plan (AMP) periods, which support the Company's underlying costs. This provides reasonable certainty over future tariffs, revenues, costs and cash flows over the current AMP (April 2015 to March 2020). The Directors have assessed Anglian Water's financial viability over the next four years from April 2016 to the end of the current AMP period in March 2020. The Directors also review the financial viability of the business on a minimum three-year rolling basis, where that period spans two AMP regulatory periods.

The Board regularly reviews business plans that show projected cash flows for the five-year AMP period. As we approach the end of a five-year AMP period and await the outcome of the next price determination, the business makes assumptions about the forthcoming price review. Although there is increased uncertainty around future AMPs we take note of the Water Industry Act, where price limits set by Ofwat are required to be sufficient for efficient companies to make reasonable returns on their capital and to raise the finance they need to fulfil their functions as a water provider.

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 to ensure the availability of debt to finance the Company's investment programme. At each Regulatory Price Review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period. This includes extensive stress testing from plausible scenarios chosen because they have the greatest risk to the business. The following scenarios have been used individually and in combination:

- Financial and operational impacts arising from severe but plausible crystallisation of the principal risks set out in pages 74 to 78, including cost shocks, and the likely effectiveness of available mitigating actions
- Cost of debt changes
- Significant inflation fluctuations up and down.

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

The Board has satisfied itself that the business has a reasonable expectation of remaining viable at least to the end of the current AMP period, and is financially resilient. This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted and by reviewing the business plans and strategic models, combined with the robust risk management process described above.

In making this statement, the Directors have assumed that funding for capital expenditure in the form of capital markets or bank debt will be available in all reasonable market conditions.

FINANCIAL PERFORMANCE

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

Financial results

The underlying financial results are summarised in the table¹ below:

	2016 Total £m	2015 Total £m
Revenue	1,185.4	1,244.3
Other operating income	13.5	12.9
Operating costs ¹	(560.6)	(523.9)
Depreciation and amortisation	(297.9)	(280.7)
Underlying operating profit	340.4	452.6
Finance income (adjusted) ²	3.6	4.2
Finance costs ¹	(254.9)	(274.8)
Underlying profit/(loss) before tax	89.1	182.0

The table below sets out the reconciliation between the statutory income statement (on page 141) and the underlying financial performance as shown above.

	2016 Total £m	2015 Total £m
Profit before tax on an underlying basis	89.1	182.0
Operating costs - fair value losses on energy hedges	(4.8)	(0.8)
Finance costs - fair value losses on financial derivatives	(84.9)	(212.8)
Finance income - intra-group interest receivable	192.8	192.3
Profit before tax as reported in the statutory income statement	192.2	160.7

¹ In order to show performance on an underlying basis the fair value gains and losses on energy hedges and financial derivatives have been excluded from the table.

² In order to show the position of the Anglian Water Services Financing (AWSF) Group (as defined in the ownership structure on page 16), finance income is shown excluding internal interest receivable by the Group from Anglian Water Services Holdings Ltd of £192.8 million (2015: £192.3 million).

Revenue for the year was £1,185.4 million, down £58.9 million (4.7 per cent) on last year. This primarily reflects the reduction in customer bills that came into effect on 1 April 2015 in line with the regulatory price setting review, which was partially offset by customer growth in the region.

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

Operating costs for the year increased by £36.7 million (7.0 per cent) to £560.6 million (2015: £523.9 million). Almost half of this increase is due to a rise in repair costs, which used to be capitalised under the old infrastructure accounting rules, and has consequently increased volatility in operating costs. The overall increase is explained in the table below:

Increases/(decreases) in operating costs	£m
One-off credits in 2014/15 not repeating – principally a non-recurring cash rebate in respect of prior year contributions to the Environment Agency's environmental improvement scheme, and power credits	8.9
Increase in minor repair activities to maintain water and wastewater below ground infrastructure ¹	15.6
Additional funding to ensure we meet our Outcome Delivery Targets, and the transfer of funding from capital to operational to optimise whole-life totex efficiencies	7.2
General inflationary increases	6.9
Power – predominantly price increases	4.4
Operating costs of newly commissioned plant	3.0
Insurance – due principally to some relatively large one-off claims during the year as a result of flooding caused by extreme weather events, such as the flooding in Bedford in late summer 2015	2.8
Network contracts – due to the close-out of the AMP5 position and revised contractual terms for AMP6	1.9
Reduction in bad debt charge	(1.2)
Efficiency savings achieved	(12.8)
Net increase in operating costs	36.7

The bad debt charge for the year was £31.9 million, a reduction of 3.6 per cent compared with last year's charge of £33.1 million. This reflects the impact of the tariff reduction in the year and improved management of customer credit.

The cost and efficiency savings were derived from a range of initiatives, including energy conservation and self-generation, optimising the sourcing of commodities, centralised

management of operations, renegotiating supplier contracts on improved terms, and more efficient asset maintenance programmes.

Depreciation and amortisation is up 6.1 per cent compared with last year, reflecting the impact of the high level of newly commissioned assets that were completed at the end of the previous AMP. This included a significant element of relatively shorter-life assets, which attract a higher depreciation charge.

Underlying operating profit fell by 24.8 per cent to £340.4 million, which is consistent with the effect of the regulatory price reduction, increased operating costs and depreciation.

Net finance costs – excluding the intra-group interest receivable of £192.8 million (2015: £192.3 million) and before fair value gains and losses on derivative financial instruments – decreased by 7.1 per cent from £270.6 million in 2015 to £251.3 million in 2016. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, which was partially offset by a lower proportion of interest capitalised.

There was a non-cash fair value loss of £84.9 million on derivative financial instruments (excluding energy derivatives) in 2016, compared with a loss of £212.8 million in 2015, due to movements in market expectations of long-term interest, inflation and exchange rates. This fair value loss has no commercial or economic impact on the Group's operations or customers. The main factor for the lower loss in 2016 compared to 2015 was the movement in the yield curve for forward interest rates, which fell by 28 basis points during the year, compared with a fall of 90 basis points in 2015. During the year, forward inflation rates decreased by circa 4 basis points (2015: 40 basis point decrease), which partially mitigated the impact of the fall in forward interest rates on our inflation swap fair values.

Profit before tax for the year on an underlying basis (i.e. excluding fair value losses on derivative financial instruments and the intra-group interest receivable) was £89.1 million, compared with £182.0 million in the prior year. This reflects the reduction in operating profit, which was partially offset by reduced finance costs (excluding fair value losses on derivatives), due principally to the lower Retail Price Index (RPI).

¹ IFRS has increased operating expenditure volatility from minor repair costs, which, in the past, would have been treated as capital expenditure under the old UK GAAP infrastructure renewals accounting rules.

FINANCIAL PERFORMANCE

Taxation

Current tax

The current tax charge for the year was £12.8 million (2015: £12.6 million). The slight increase was caused by a reduced prior year adjustment in respect of certain capital expenditure at our treatment works following agreement being reached with HMRC for the tax treatment for earlier years. Partially offsetting this were the effects of a reduction in the corporation tax rate from 21 per cent to 20 per cent for the year, a reduction in underlying profits and a higher level of capital allowances claimed on the substantial capital investment we make to improve the service to customers.

Deferred tax

The main reasons for the deferred tax credit in the current year are the fair value losses on derivatives, together with an adjustment for prior years arising from agreement with HMRC for the transfer of non-qualifying assets, which would previously have qualified for Industrial Building Allowances, being classified as long-life assets.

The deferred tax credit has increased from £46.9 million to £151.6 million. The current year includes the impact of the reduction in future tax rates used to calculate deferred tax from 20 per cent to 18 per cent, which gives rise to a credit of £122.9 million. Without this, there is a credit in the current year of £28.7 million.

Our relatively low level of taxation reflects the fiscal incentives available for capital investment, and the interest we pay to fund that investment. 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. Customers also benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2016, other than corporation tax, amounted to £203 million (2015: £174 million), of which £60 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. Further details are provided in the section on fair profits.

Capital reduction

During the year, the Company undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue, the Company completed a capital reduction exercise, creating £2,560.2 million of distributable reserves. On completion of this process, the issued share capital of the Company remained unchanged from the 10,000,000 ordinary shares of £1 each in issue at the start of year.

The revaluation reserve was created as part of the prior year conversion to International Financial Reporting Standards (IFRS), and has been converted into distributable reserves to offset the negative impact that conversion to IFRS had on the Company's reserves.

Successful first year of AMP6 investment programme

AMP6 gross capital expenditure¹ in the appointed business for the year was £265.6 million (£163.2 million on capital maintenance and £102.4 million on capital enhancement), compared to £394.0 million in the last year of AMP5, which included £55 million of AMP6 transition expenditure. This level of expenditure is broadly in line with management expectations.

Significant projects worked on during the year include the Grafham Water resilience scheme, which involves redirecting water from Rutland Water, and a major refurbishment of the Semer water treatment works in Suffolk. As expected in the first year of a new AMP, there were no major schemes completed in the year.

Over the five years of AMP6, we will be investing more than £2.1 billion through our investment programme, delivering our Business Plan both in terms of regulatory outputs and in support of our ODIs. As part of that we will also be investing more than £800 million to support the protection of customer supply.

An additional £0.6 million was spent on the non-appointed business, in respect of various system and office developments.

¹ Stated on an IFRS basis excluding capitalised interest (£10.9 million), fair value of adopted assets (£11.9 million) and new finance leases (£0.4 million).

Financial needs and resources

In the year to 31 March 2016, Anglian Water sourced £214.7 million of new funds and made debt repayments of £330.5 million. The £214.7 million of new debt raised during the year comprised four tranches (\$150.0 million fixed rate, £55.0 million fixed rate, £20.0 million fixed rate and £35.0 million floating rate) of United States Private Placement funding and a small £0.4 million new finance lease. The United States Private Placement debt was raised with a delayed drawdown date of 27 April 2016, which means funds were not received until after the year end and, therefore, the proceeds do not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £4.7 million finance lease repayment, £75.8 million of inflation-linked swap indexation paydowns and the repayment of our £250 million 5.25 per cent Class A bond maturing in October 2015.

At 31 March 2016, Anglian Water had net borrowings of £6,539.2 million (£5,833.6 million excluding derivatives), an increase of £162.9 million (£184.4 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,252.6 million, derivative financial instruments of £705.6 million (excluding energy derivatives of £45.3 million), and cash and deposits of £419.0 million. The increased net borrowings reflect a decrease of £154.1 million in loans and associated costs, primarily relating to debt repaid but partially offset by the impact of inflation on index-linked debt; a decrease in the derivatives' valuation of £21.5 million; and a decrease of £338.5 million in cash and deposits (which causes net debt to increase).

The business generated a net cash inflow from operating activities of £627.5 million in the year ended 31 March 2016 (2015: £708.6 million). The reduction in operating cash flow is consistent with the reduced revenue and increased operating costs referred to above and the payment for intragroup tax relief, partially offset by an improved performance in customer debt collection.

Distributions

Dividends paid out of the Group for the year ended 31 March 2016 were £152.2 million (2015: £180.2 million), which equates to £15.22 per share (2015: £18.02 per share). In addition, an intra-group dividend of £192.8 million (2015: £192.3 million) was paid and committed to Anglian Water Services Holdings Ltd (via AWS Overseas Holdings Ltd), in order for it to service the interest payable to the Company on the inter-company loan of £1,602.6 million. This dividend is retained within the Anglian Water Services Financing (AWSF) Group. In total, dividends of £345.0 million (2015: £372.5 million) have been paid and committed at £34.50 per share (2015: £37.25 per share).

The Directors have proposed a final dividend for the year ended 31 March 2016 of £10 per share, which is a total of £100 million. This distribution has not been accounted for within the 2015/16 financial statements as it was approved after the year end.

The Company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the Asset Management Plan period of 31 March 2020) and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows. The Directors consider this cash-based approach provides an acceptable return to the equity investor, while ensuring the liquidity requirement of the business is met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraints. This policy is consistent with condition F of the licence. The Company's Business Plan for AMP6 is to target gearing below 80 per cent by 2020.

FINANCIAL PERFORMANCE

Liquidity

The Company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2016, the Company held cash, deposits and current asset investments of £419.0 million (2015: £757.5 million). The decrease in cash held compared to the prior year reflects the cash generated by the business being more than offset by distributions and debt repayments during the year as the Company seeks to lower its level of cash in order to reduce its cost of carry. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 17 on pages 162 to 163 of the accounts.

The Company has access to £600.0 million of facilities (2015: £500.0 million), which were undrawn at 31 March 2016, to finance capital expenditure and working capital requirements. In addition, the Company has access to a further £375.0 million of liquidity facilities (2015: £375.0 million), consisting of £279.0 million to finance debt service costs and £96.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in default on its debt obligations and had insufficient alternative sources of liquidity.

All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the Company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Company upon utilisation of the facility.

Interest rates

The Company's policy, as agreed by the Board, is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 58.5 per cent (2015: 56.5 per cent) of the Company's borrowings were at rates indexed to RPI, 36.0 per cent (2015: 34.8 per cent) were at fixed rates and 5.5 per cent (2015: 8.7 per cent) were at floating rates. No new debt indexed to RPI was borrowed during the year.

Pension funding

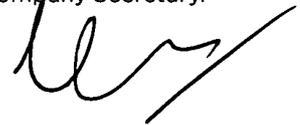
The IAS 19 pension surplus (before deferred tax) at 31 March 2016 stood at £12.1 million for all schemes, compared to a deficit of £38.4 million at 31 March 2015. This improved position reflects our deficit reduction payments in the year of £10.0 million, combined with the beneficial impact of an increase in the yields on AA-rated corporate bonds. The improvement as a result of these two items has been partially offset by lower than expected asset returns.

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 on pages 189 to 227. This is a new report, which replaces the regulatory accounts presented in previous years.

This Strategic Report was approved by the Board of Directors on 27 May 2016 and signed on its behalf by C Russell, Company Secretary.

Claire Russell
Company Secretary
27 May 2016



GOVERNANCE

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The Company and the Group are committed to high standards of corporate governance. In December 2013 we published the Anglian Water Services 2014 Corporate Governance Code (2014 Code) in response to the governance proposals put forward by Ofwat. We have now updated our 2014 Code to reflect certain changes in the UK Code (relating primarily to Remuneration Policy and Risk Management and Internal Control). The updated Code came into effect on 1 April 2015.

BOARD
EVALUATION

RISK MANAGEMENT
AND INTERNAL
CONTROL

NOMINATION
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CHAIRMAN'S INTRODUCTION

Dear Stakeholder

I am pleased to present the Corporate Governance Report for the year ended 31 March 2016. Information on the Company's performance during the year can be found in the Strategic Report on pages 20 to 84 and the Group's financial statements commence on page 140.

Anglian Water Services Corporate Governance Code (2015 Revision)

On 1 April 2015, the Anglian Water Services Corporate Governance Code (2015 Revision) came into effect and in this year's Governance Report we report our compliance with the revised Code. The revised Code incorporated the changes made to the UK Corporate Governance Code relating primarily to Remuneration Policy and Risk Management and Internal Control. The Corporate Governance Statement can be found on page 97. I am pleased to report that during the year, we complied fully with the revised Code, save that three of our longest serving Non-Executive Directors, all of whom stepped down during the year, served for longer than nine years.

Risk

During the year, the Board has reviewed the risk management process, has reviewed in detail the Top Tier risk register and has considered and approved changes in the approach to the management of risk, which are designed to further integrate risk within the business. Detailed disclosures in relation to our risk management process are included in the Strategic Report on pages 72 to 79.

Succession

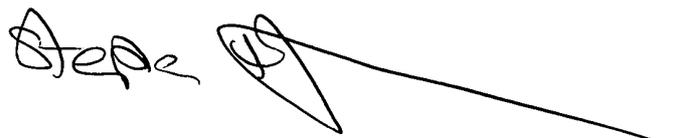
Succession is a key focus of the Nomination Committee and during the year the Nomination Committee kept under review the development, succession planning and talent pool for the Management Board and other senior roles to identify both talent strengths and talent gaps.

Structure of the report

Over the following pages you will find the Directors' biographies (pages 87 to 89), the Corporate Governance Report (pages 90 to 97) and the reports of the Audit, Nomination and Remuneration Committees. Information on our Board evaluation can be found on page 96 and information on the Company's approach to diversity on page 103.

Stephen Billingham

27 May 2016



BOARD OF DIRECTORS

Stephen Billingham

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

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

Stephen is also Chairman of Punch Taverns plc, Chairman of Urenco Ltd and a Non-Executive Director of Balfour Beatty plc.

Stephen has been Group Finance Director (CFO) of the FTSE 100 power generator British Energy Group plc and the Group Finance Director (CFO) of WS Atkins plc, the UK's largest engineering consultancy.

Executive Directors

Scott Longhurst, Managing Director, Finance and Non-Regulated Business

Scott Longhurst was appointed Group Finance Director of Anglian Water Group (AWG) in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's non-regulated businesses in addition to his financial responsibilities. Prior to joining AWG, he spent most of his career with Shell and TXU Corporation.

Scott moved from Shell in 2000 to TXU and, from early 2001, was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company. In February 2004, he was appointed Group Controller and Chief Accounting Officer of TXU Corporation.

Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell encompassing corporate, operating company and joint venture activities across Europe, the Far East and the Middle East.

Scott is a Fellow of the Institute of Chartered Accountants in England and Wales, a founding member of HRH The Prince of Wales Accounting for Sustainability CFO Leadership Network and is also a Non-Executive Director and chairs the Audit Committee of Candover Investments Plc.

Chris Newsome, Director of Asset Management

Chris Newsome is Director of Asset Management at Anglian Water and was appointed in September 2004.

Chris is a civil engineer by profession and has spent the vast majority of his career within the water industry, planning for, designing and delivering capital programmes of work and managing the asset base.

Chris is Chairman of @one Alliance, Chairman of UK Water Industry Research Ltd and a Director of the Institute of Asset Management. He is also a member of the Government's Green Construction Board and is Chairman of the Infrastructure Group.

Chris is a Fellow of the Institution of Civil Engineers and of the Institute of Asset Management and a member of the Chartered Institute of Water and Environmental Management.

Peter Simpson, Chief Executive Officer

Peter Simpson was appointed to the Board of Anglian Water Services Limited in November 2004. He was appointed Managing Director in January 2010 and became Chief Executive Officer of AWG in October 2013.

He previously held the position of Chief Operating Officer, responsible for the day-to-day functioning of Anglian Water, with a scope covering operations, asset management and customer services. Prior to that, he held positions within the international division of AWG, including Regional Director for Europe and South America, based in the Czech Republic, and Senior Vice President of Operations, based in the USA.

Peter is currently a director of Market Operator Services Limited, having previously been on the board of Open Water Markets Limited and on Defra's High Level Group on the introduction of non-domestic competition. He served as Chairman of Water UK from April 2012 until September 2013 and is currently President of the Institute of Water. Peter is a Chartered Water and Environmental Manager, Scientist, Environmentalist, and a Health and Safety Practitioner. He also holds an MBA from Warwick Business School.

BOARD OF DIRECTORS

Jean Spencer, Director of Regulation

Jean Spencer was appointed as Regulation Director in May 2004.

Prior to joining Anglian Water, she held a number of positions with Yorkshire Water and Kelda. Jean is a Council Member for Water UK and a Trustee on the Council of the British Trust for Ornithology. She is a qualified Chartered Accountant by training.

Independent Non-Executive Directors

Polly Courtice, LVO

Member of the Nomination Committee
Member of the Remuneration Committee

Polly Courtice was appointed to the Board in April 2015.

Polly is Director of the University of Cambridge Institute for Sustainability Leadership. She is also Founder Director of The Prince of Wales's Business and Sustainability Programme, and Academic Director of the University's Master of Studies in Sustainability Leadership.

Polly is a member of the University's Environmental Sustainability Strategy Committee and the Board of Executive and Professional Education. She is a Director of Jupiter Green Investment Trust, and is on the environmental/sustainability advisory boards for AstraZeneca plc, Freshfields Bruckhaus Deringer LLP, Lloyds Banking Group plc and Nespresso. In 2008, Polly was made a Lieutenant of the Victorian Order (LVO), announced in the Queen's Birthday Honours list. Polly was awarded the 2015 Stanford Bright Award.

Steve Good

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

Steve Good was appointed to the Board in April 2015.

Steve is also currently Chairman of Zotefoams plc, a Non-Executive Director and Chairman of the Remuneration Committee of Cape plc and a Non-Executive Director of Elementis plc.

Steve was Chief Executive of Low & Bonar PLC between September 2009 and September 2014. Prior to that role, he was Managing Director of its Technical Textiles division between 2006 and 2009, Director of New Business between

2005 and 2006, and Managing Director of its Plastics division between 2004 and 2005. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is a Chartered Accountant.

John Hirst, CBE

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

John Hirst was appointed to the Board and as Chairman of the Audit Committee in April 2015. He was appointed as Senior Independent Non-Executive Director in January 2016.

John is a Non-Executive Director of Ultra Electronics Holdings plc, Marsh UK plc and Non-Executive Chairman of Hammerson plc Pension Fund. He is a Trustee of Epilepsy Research UK and SUDEP Action.

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

Paul Whittaker

Member of the Nomination Committee
Chairman of the Remuneration Committee

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

Paul became Director, UK Regulation at National Grid plc in April 2006. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their

day-to-day regulatory discussions and sat on the Boards of the two main UK operating subsidiaries - National Grid Electricity Transmission plc and National Grid Gas plc. Immediately prior to that he was Group Head of Strategy.

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

Non-Executive Directors

James Bryce

Member of the Nomination Committee
Member of the Remuneration Committee

James Bryce was appointed as a Non-Executive Director in December 2014. James works for CPP Investment Board's London office where he is a Senior Principal within CPPIB's Portfolio Value Creation team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (the private equity arm of RBS) where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBS, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University. He was appointed an alternate Non-Executive Director of AWG in December 2014.

Andrew Cox

Member of the Nomination Committee
Member of the Remuneration Committee

Andrew Cox was appointed as a Non-Executive Director in April 2014. Andrew is a director within 3i's infrastructure investment business, responsible for the origination, structuring and asset management of infrastructure investments. Andrew also sits on the boards of Cross London Trains, the Thameslink rolling stock finance vehicle and Elenia Lampo, a Finnish district heating company. He has worked at 3i in the Infrastructure Team since 2006, prior to which he was at Ambac Assurance and Schroders/Citigroup, advising on and lending to infrastructure projects. Andrew has been an alternate Non-Executive Director of AWG since May 2012.

Werner Kerschl

Werner Kerschl was appointed as a Non-Executive Director in November 2015. Having been with IFM Investors for 10 years, Werner is an Investment Director for the Infrastructure Equity team based in London and is responsible for the origination and execution of infrastructure transactions and the related asset management.

During his time at IFM Investors, Werner has worked on numerous successful global acquisitions including Anglian Water Group (UK), 50Hertz Transmission (Germany), Duquesne Light Holdings (USA) and the Defence Headquarters PPP (Australia). More recently Werner was leading the acquisition of a stake in Vienna Airport (Austria). He also represents IFM Investors as a Director on the Management Board of Eurogrid GmbH (Germany). He was appointed as an alternate Non-Executive Director of AWG in May 2013.

Prior to joining IFM Investors Werner worked within the Valuations team at PwC, Melbourne, and the Corporate Finance team at KPMG in Vienna.

Werner is a Chartered Financial Analyst, holds a Master of Business Consultancy from Fachhochschule Wiener Neustadt (Austria) and has a Graduate Certificate in Business from the Victoria University of Technology in Melbourne.

Niall Mills

Member of the Nomination Committee
Member of the Remuneration Committee

Niall Mills was appointed as a Non-Executive Director in April 2014. Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall is also a director of the Homes and Communities Agency, Electricity North West and of several other Fund Investments across Europe. He has been a Non-Executive Director of AWG since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

CORPORATE GOVERNANCE REPORT

Principles of corporate governance

The Company and the Group are committed to high standards of corporate governance. In September 2013, Ofwat published a consultation paper entitled *Board leadership, transparency and governance*. In this paper, Ofwat stated that it was setting out a series of principles that companies' boards can build on in developing their own leadership and governance codes. In December 2013, we published the Anglian Water Services 2014 Corporate Governance Code (2014 Code) in response to the governance proposals put forward by Ofwat. Ofwat published the final version of its Board leadership, transparency and governance principles in January 2014.

In September 2014, the FRC published a revised version of the UK Corporate Governance Code (UK Code). We have updated our 2014 Code to reflect certain changes in the UK Code (relating primarily to Remuneration Policy and Risk Management and Internal Control). The Anglian Water Services Corporate Governance Code (2015 Revision) came into effect on 1 April 2015 (2015 Code). The areas where the 2015 Code is not followed are explained below.

A copy of both our 2014 Code and the revised 2015 Code can be found on the Company's website.

Corporate governance arrangements resulting from securitisation

In 2002, a securitised structure was put in place. As part of these arrangements, the Company entered into a Common Terms Agreement (CTA) with its debt investors. The CTA sets out the terms and conditions of the Company's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN. The CTA restricts amendments to the Articles of Association of the Company without obtaining prior consent from the Security Trustee. Additionally, as a result of provisions within the CTA, the Directors do not have the power to allot or repurchase the Company's shares. The

Company is wholly owned by Anglian Water Services Overseas Holdings Limited, which owns all 10,000,000 of the issued ordinary £1 shares in the capital of the Company. On 5 October 2015, the Company undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue the Company completed a capital reduction exercise, creating £2,560.2 million of distributable reserves. On completion of this process the issued share capital of the Company remained unchanged from the 10,000,000 ordinary shares of £1 each in issue at the start of the year.

Under the CTA, the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG):

- Anglian Water Services Holdings Limited
- Anglian Water Services Overseas Holdings Limited
- Anglian Water Services Limited
- Anglian Water Services Financing Plc.

The corporate governance measures put in place in 2002 are designed to ensure that the Company has the means to conduct its regulated business separately from other companies within the Anglian Water Group, and that all dealings between other companies within the Anglian Water Group and the Company are on an arm's-length basis.

Under the CTA, the Company is required to maintain at least three Independent Non-Executive Directors, except for periods where a temporary vacancy exists. The Board may include Directors who are also Directors of other Anglian Water Group companies. However, the CTA requires that the majority of Executive Directors on the Board cannot also be Directors of other Anglian Water Group companies. No Director may vote on any contract or arrangement between the Company and any other Anglian Water Group Company if he/she is also a Director of that Anglian Water Group Company. In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board.

The Board

The Board's aim is to ensure the effective delivery of the Company's strategy. We have identified six strategic priorities for AMP6, which are as follows:

- 1 Influencing and responding to market reform and regulatory change
- 2 Responding to changing customer influence and power
- 3 Driving business efficiency and ODI performance
- 4 Securing long-term water resources and resilience
- 5 Managing quality and environment risk
- 6 Developing our organisation and culture.

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

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

One of Ofwat's principles (set out in the January 2014 publication referred to above) is that a regulated business must act as if it is "a separate public listed company". Companies that are governed by the Listing Rules must obtain shareholder approval before concluding a material transaction (materiality being determined by reference to the Class tests set out in Rule 10). Such transactions are likely to result from a major change in strategy and might include (for example) the acquisition of another undertaker (or a part thereof). The Board therefore considers it to be reasonable to ask the ultimate owners of the Company to approve material changes in strategy given that this power is broadly analogous to the approval power of shareholders in a listed company. Where a material change in strategy is contemplated, the role of the Board is to consider the relevant proposal and to make a recommendation to the AWG Board for approval. In formulating their recommendation, the directors of the Company are mindful of their duty under the Companies Act 2006 to act in the way that is likely to promote the success of the Company for the benefit of its members as a whole (which requires Directors to have regard to the likely consequences of any decision in the long term).

Matters delegated to management are set out in a Scheme of Delegation. Typically, these matters comprise financial approvals at levels that are not considered by the Board to be material as well as routine operational decisions and minor regulatory approvals.

CORPORATE GOVERNANCE REPORT

Board membership

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

Stephen Billingham

(appointed as Non-Executive Chairman on 1 April 2015)

Peter Simpson

(Chief Executive Officer)

Scott Longhurst

(Managing Director, Finance and Non-Regulated Business)

Chris Newsome

(Director of Asset Management)

Jean Spencer

(Director of Regulation)

Polly Courtice

(Independent Non-Executive Director, appointed 1 April 2015)

Steve Good

(Independent Non-Executive Director, appointed 1 April 2015)

John Hirst

(appointed as an Independent Non-Executive Director on 1 April 2015 and appointed as Senior Independent Non-Executive Director on 1 January 2016)

Paul Whittaker

(Independent Non-Executive Director)

James Bryce

(Non-Executive Director)

Andrew Cox

(Non-Executive Director)

Werner Kerschl

(Non-Executive Director, appointed 3 November 2015)

Niall Mills

(Non-Executive Director)

The following Directors resigned from the Board during the year:

Christopher Garnett

(Senior Independent Non-Executive Director, resigned 31 December 2015)

Robert Napier

(Independent Non-Executive Director, resigned 23 July 2015)

Christian Seymour

(Non-Executive Director, resigned 2 November 2015)

John Watkinson

(Independent Non-Executive Director, resigned 31 December 2015)

At 31 March 2016, in addition to the Chairman Stephen Billingham, there were four Executive Directors, four Independent Non-Executive Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

The Company is required under the terms of its Licence to ensure that the composition of the Board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the Company. Both the Licence and the CTA require that the Board of the Company must contain no fewer than three Independent Non-Executive Directors. The Board is satisfied that the composition of the Board is such that there is an appropriate balance of skills, experience, independence and knowledge of the Company. The Board also considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the Board's decision taking. Details of the skills and experience of the Directors are contained in the Directors' biographies on page 87.

The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Company's strategy and performance. Stephen Billingham, who was appointed as Chairman on 1 April 2015, was independent on his appointment to the Board, remains independent of investors and management and is not linked in any way to shareholders or management. The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2016. The Board concluded that all the Independent Non-Executive Directors remain independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2015 Code.

All Independent Non-Executive Directors have letters of appointment rather than service contracts, which include the expected time commitment of the appointment. Copies of these can be found on the Company's website.

Where Directors have concerns that cannot be resolved about the running of the Company or a proposed action, these would be recorded in the Board minutes, but no such concerns have been raised.

Roles and responsibilities

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board on 8 November 2013) appears on the Company's website. The Chairman's commitment to the Company and to its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on page 87. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

A document setting out the role and duties of the Senior Independent Non-Executive Director was agreed by the Board on 26 November 2015 and appears on the Company's website.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender). Non-Executive appointees are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table below:

Board composition and roles

Chairman	Stephen Billingham	Responsible for leading and managing the Board, its effectiveness and governance. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
Chief Executive Officer	Peter Simpson	Responsible for the leadership and day-to-day functioning of the Company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.
Managing Director, Finance and Non-Regulated Business	Scott Longhurst	Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the Company. Responsible for the Group's non-regulated business.
Independent Non-Executive Directors	Polly Courtice Steve Good Paul Whittaker	Responsible for providing constructive challenge and bringing independence to the Board and its decision-making process. Particularly: <ul style="list-style-type: none"> • Bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management • Scrutinising and challenging the performance of the Company's business • Assessing risk and the integrity of the financial information and controls
Senior Independent Non-Executive Director	John Hirst	Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the Company if they have concerns that contact through the normal channels of Chairman, Chief Executive or other Executive Directors has failed to resolve, or for which such contact is inappropriate.
Non-Executive Directors	James Bryce Andrew Cox Werner Kerschl Niall Mills	Responsible for providing constructive challenge to the Board's decision-making processes.

CORPORATE GOVERNANCE REPORT

Board meetings

The Board holds regular scheduled meetings throughout the year and during the year ended 31 March 2016, there were 11 scheduled meetings of the Board. In addition, the Board held two scheduled meetings between 31 March 2016 and the date of signature of this report. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairmen of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by that Committee since the previous Board meeting.

Board Committees

The Board has an Audit Committee, a Nomination Committee and a Remuneration Committee. Final decisions on issues dealt with by each of these Committees are made by the Board.

Audit Committee

Details of the terms of reference of the Audit Committee, its membership and activities during the year are contained in the Audit Committee Report on pages 98 to 101.

Nomination Committee

Details of the terms of reference of the Nomination Committee, its membership and activities during the year are contained in the Nomination Committee Report on pages 102 to 103.

Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the Company's remuneration policy and the remuneration paid to Directors during the year are contained in the Remuneration Report on pages 104 to 135.

Board and Committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2016 is shown in the table below:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham	11/11	4/4	1/1	5/5
James Bryce	11/11	-	1/1	5/5
Polly Courtice	10/11	-	1/1	2/2
Andrew Cox	10/11	-	1/1	4/5
Steve Good	10/11	4/4	1/1	5/5
John Hirst	9/10	4/4	-	5/5
Werner Kersch	4/5	-	-	-
Scott Longhurst*	11/11	4/4	1/1	4/5
Niall Mills	11/11	-	1/1	5/5
Chris Newsome	11/11	-	-	-
Peter Simpson*	11/11	4/4	1/1	5/5
Jean Spencer	10/11	-	-	-
Paul Whittaker	11/11	-	1/1	5/5

Former Directors who served during the year:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Christopher Garnett	8/9	2/2	1/1	3/3
Robert Napier	5/5	-	-	-
Christian Seymour+	4/6	-	1/1	4/5
John Watkinson	9/9	-	-	-

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

+ Continued as a member of the Nomination and Remuneration Committees following his resignation from the Board.

During the year, 13 other Board meetings were held, some at short notice. Of those meetings, six dealt with loan agreements, liquidity facility, private placement and the prospectus; one dealt with an interim dividend, four arose from routine quarterly interim dividends linked to the AWSF Group's finance structure; and two dealt with the capital reduction.

Since 31 March 2016, two further scheduled Board meetings have been held, which all Directors attended save Niall Mills, who was unable to attend the Board meeting on 28 April 2016 and Chris Newsome, who was unable to attend the Board meeting on 26 May 2016.

A further meeting of the Audit Committee was held on 25 May 2016 and a further meeting of the Remuneration Committee was held on 26 May 2016. All members attended these meetings other than Christian Seymour, who was unable to attend the Remuneration Committee meeting on 26 May.

Board Committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense.

Information and professional development

Directors are continually updated on the Company's business and changes to the competitive and regulatory environment through briefings to the Board and meetings with senior executives. Periodic Board visits to different business locations enable the Directors to meet with local management and employees, and to update and maintain their knowledge and familiarity with the Company's operations. During the year, the Board visited the Operational Management Centre and Contact Centre in Lincoln to further understand the Company's approach to customer service.

The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior executives. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties.

The Company Secretary is available to all Directors and she is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

New Directors undergo an induction programme. On appointment, they receive a full background information pack, which includes among other things business plans, Annual Report and Accounts, briefing note and board paper on Directors' duties, conflicts and declarations of interest, Articles of Association, Group structure chart and the Love Every Drop Manifesto.

Since their appointment on 1 April 2015, Polly Courtice, Steve Good and John Hirst have undertaken a comprehensive induction programme, which has included visiting operational sites, including a water treatment works and water recycling centre. They also received detailed briefings from Executive Directors and a number of senior managers covering, among other matters:

- The business of the Company
- Their legal and regulatory responsibilities as Directors of the Company
- Briefings and presentations from Executive Directors and senior executives.

Further training is also provided to all Directors, including legal and regulatory updates. The Chairman periodically reviews the training needs of all Directors and in the course of the year the Company Secretary circulated a list of proposed training topics likely to be of interest to the Directors. Following a review, the Board agreed a detailed training programme for the remainder of the 2015/16 financial year and the 2016/17 financial year. Topics to be covered include regulatory and competition and market reform related issues.

The Company also offers to fund participation on externally provided training courses. All Board members are entitled to receive, at the Company's expense, independent professional advice on any matters relating to their responsibilities as Directors.

CORPORATE GOVERNANCE REPORT

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. A thorough evaluation of the Board was conducted during the year. This was facilitated by the Company Secretary, under the direction of the Chairman. The process involved each of the Directors completing an online questionnaire, which included questions on the operation and effectiveness of the Board and its Committees and the performance of the Chairman and individual Directors. The output from the evaluation was used as a basis for discussions between the Chairman and Board members, where necessary. The results were also compiled into a report, which was presented to the Board at its meeting on 31 March 2016 for consideration and debate. No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the review and the Chairman confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board. During the meeting the Board agreed a number of actions, as a result of the Board evaluation, which included:

- Streamlining certain Board papers, especially those relating to strategy
- Ensuring that there is sufficient time in the Board agenda to focus on those areas identified by Board members as key challenges in the medium term.

Separately, the Non-Executive Directors, under the leadership of the Senior Independent Non-Executive Director, and with input from the Executive Directors, conducted an evaluation of the Chairman. The outputs from that evaluation were debated by the Board, in the absence of Chairman, and feedback was given to him by the Senior Independent Non-Executive Director.

At the Board meeting on 26 November 2015, the Board also reviewed the action plan agreed following the 2014/15 Board evaluation process. The Board agreed that the all actions had either been completed or were in hand.

Relations with shareholders

In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, while having due regard to the interests of other stakeholders, including but not limited to customers, employees and suppliers.

The Company maintains a website at www.anglianwater.co.uk, which is regularly updated and contains information about the Company's operations.

Risk management and internal control

Detailed disclosure in relation to the Company's approach to managing risk is included in the Strategic Report on pages 72 to 79 along with details of the Company's principal risks and an assessment of the future viability of the business.

The Company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These include:

- The formulation and deployment of Company accounting policies and procedures
- Policies governing the maintenance of accounting records, transaction reporting and key financial control procedures
- Monthly operational review meetings, which include, as necessary, reviews of internal financial reporting issues and financial control monitoring
- Ongoing training and development of appropriately qualified and experienced financial reporting personnel.

For the 2015/16 financial year, the Company's internal and financial controls included the following:

- An internal audit programme, outsourced to KPMG. The internal auditors carry out a comprehensive review of internal controls and formally report their findings and recommendations to the Audit Committee
- An annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility. The responses are reviewed by the Audit Committee
- A formal controls questionnaire completed by the business twice each year and reviewed by Group Internal Audit (GIA), with the conclusions being highlighted to the Audit Committee
- A regular review by the Board of the Top Tier Risk Register
- An annual review of the maturity of the financial controls, which was conducted by the Company's external auditors. The findings of the most recent review were reported to the Audit Committee in March 2016. No significant failings or weaknesses were identified from this review
- A review by an independent assurance provider of the information that Ofwat requires us to publish and other key corporate data.

Corporate governance statement

As noted above, the Company has elected to comply with the 2015 Code on a voluntary basis. The Board confirms that it has complied with the Code throughout the year under review save in the following respect:

- G30: Christopher Garnett, Robert Napier and John Watkinson served on the Board for more than nine years. However, throughout their tenure on the Board all three Directors continued to undertake a variety of other external roles that provided them with a range of experience and perspectives such that they were able to bring an independent approach to the Board. Following the appointment of Polly Courtice, Steve Good and John Hirst on 1 April 2015, Robert Napier resigned on 23 July 2015 and Christopher Garnett and John Watkinson resigned on 31 December 2015. All Non-Executive Directors now on the Board have served for significantly less than nine years.

As at the date of this report the Company is compliant with the 2015 Code.

This report was approved by the Board of Directors on 27 May 2016.

Claire Russell
Company Secretary
27 May 2016



AUDIT COMMITTEE REPORT

CHAIRMAN

John Hirst

MEETINGS ALSO REGULARLY ATTENDED BY:

Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Peter Simpson, Chief Executive Officer; and members of Anglian Water Group Limited Audit Committee

OTHER MEMBERS

Stephen Billingham
Steve Good

COMPOSITION OF THE COMMITTEE

Christopher Garnett stepped down from the Committee on 31 December 2015, when he resigned from the Board

MEETINGS

Four

DIRECTORS' BIOGRAPHIES

AVAILABLE ON PAGES 87 TO 89

Role of the Committee

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes. The Committee's primary functions are to:

- Monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- Review financial statements and significant financial returns to regulators
- Review the integrity of the Company's systems of internal control and risk management
- Monitor and review the effectiveness of the internal audit function
- Oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- Review and approve the annual audit plan
- Monitor the provision of non-audit services by the external auditor.

Membership and attendance

John Hirst was formerly Group Treasurer of ICI plc and Chairman of the Audit Committee at Hammerson plc and is therefore considered by the Board to have relevant financial experience.

Representatives from the external auditor and internal audit also attended all or part of the Committee's meetings. Members of the Committee also met separately with the external auditor and internal audit without management being present. The Company Secretary is Secretary to the Audit Committee.

Main activities in the year

The key areas of Committee activity during the year include the following:

Financial reporting

- Reviewed the Interim and Preliminary results, draft Annual Report and Accounts and Annual Performance Report (formerly referred to as Regulatory Accounts) for the Company for the financial year ending 31 March 2015 and going concern statement
- Reviewed key issues and areas of judgement in relation to the financial statements (including the calculation of the measured income accrual and the calculation of the bad debt provision)
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment.

➔ Available to view on the Company's website (www.anglianwater.co.uk):

Audit Committee's terms of reference
Whistleblowing Policy

External audit

- Considered reports by the external auditor on its audit and its review of the financial statements
- Received the external auditor's report on the internal control environment
- Reviewed the external audit strategy.

Internal audit

- Agreed the scope of the internal audit plan for 2016/17
- Reviewed internal audit reports.

Other

- Noted Committee membership changes
- Considered material litigation
- Reviewed IT security
- Considered Board assurance in relation to the opening of the non-household market
- Reviewed compliance with the 2015 Corporate Governance Code
- Reviewed the process for competitive tender of internal and external audit contracts.

All business discussed by the Committee during the course of the year was reported to the Board.

Risk management and internal control

Detailed disclosure around the Company's approach to managing risk is included in the Strategic Report on pages 72 to 79 along with details of the Company's principal risks and an assessment of the future viability of the business.

The Audit Committee reviews the effectiveness of the Company's risk management and internal control systems throughout the year to ensure its adequacy. This is achieved through a number of activities as noted below:

- Risks are managed using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks, to document the existing controls in place to manage these risks, to ensure mitigation plans are established and monitored and to establish clear ownership of each of the risks.

- The top-tier risk register is regularly reviewed by the Board and the Management Board.
- The Audit Committee reviews and approves Internal Audit's risk-based internal audit programme each year, with regular meetings to reprioritise audit assignments from time to time, to review the auditors' recommendations and to monitor progress in implementing those recommendations.
- The external auditors report annually on the findings of their review of the internal control environment to the Audit Committee. All control improvement recommendations are followed up at subsequent audits and reported to the Audit Committee for monitoring purposes.
- Annually, each member of the Management Board is required to review and self-certify the adequacy of the internal control for their area of the business. The results of this review are collated by internal audit and presented to the Audit Committee.

Whistleblowing programme

The Group has a whistleblowing policy and programme in all its operations whereby employees can, in confidence, report on matters where they feel malpractice is taking place or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment.

The programme encourages employees to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline operated by Group Internal Audit (GIA). GIA maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director and Group Financial Controller to decide whether there are grounds for further investigation. If so, allegations are then escalated to a designated person (Finance Director, Human Resources Director, Managing Director, Audit Committee or GIA). Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by GIA of each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to

AUDIT COMMITTEE REPORT

investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released. This policy and related procedures and any allegations made via the process are monitored by the Audit Committee.

Non-audit services

A key factor that may impair the external auditors' independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Committee and must be robustly justified and, if appropriate, tendered, before it is approved.

The fees paid to the external auditor during the year are set out in note 5 to the Financial Statements on page 154. The non-audit fees in the year to 31 March 2016 were £0.2 million and predominantly related to regulatory reporting, assurance in relation to the annual offering circular, pension advice and VAT advisory services. The Audit Committee believes that there are sound commercial and practical reasons for this work being conducted by the external auditor and that it is not of a nature that would affect their independence as auditors.

Internal audit

The provision of internal audit services is outsourced to KPMG. KPMG was appointed by the Company on 23 June 2011 for a five-year term following a competitive tendering process. In March 2015, the Committee approved the internal audit plan for 2015/16 and the plan for 2016/17 was approved at its meeting on 30 March 2016. The internal audit contract with KPMG expires in June 2016. Following a competitive tender process, the Committee has decided to appoint PwC to provide internal audit services for the next four years, starting from 1 July 2016. As a consequence, PwC will step down as external auditor (see Independence of external auditors below).

During the year, the Committee received regular reports from internal audit, which set out KPMG's view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

The Audit Committee actively contributes to the development of the annual internal audit plan, and regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected quality. On this basis the Audit Committee considers the internal audit process to be effective.

Independence of external auditors

The effectiveness of the external audit process is principally measured by the quality and timeliness of the annual reporting to the Audit Committee. In addition, the Chairman of the Audit Committee meets annually with a senior audit partner, independent of the audit team, to discuss performance and effectiveness issues.

To assess PwC's ongoing independence and objectivity in the audit process, the Audit Committee also reviews annually an overview of, and the value of, all non-audit-related work conducted by PwC on behalf of the Company. In addition, any non-audit services conducted by PwC require pre-approval by the Chairman of the Audit Committee and must be robustly justified.

PwC has been the Company's auditor since 1989. To ensure the auditors' independence is safeguarded, lead audit partners rotate every five years. In September 2011, the external audit service was put out to competitive tender and PwC was successful in retaining its contract with the Company. A new lead audit partner was selected as part of the retendering exercise. The Committee considers the relationship the Company has with PwC annually and for the year ended 31 March 2016, the Committee was satisfied with the performance, objectivity and independence of PwC as the external auditor. During the 2016/17 financial year, the role of external auditor will be put out to competitive tender. Since PwC will be appointed as the Company's internal auditor they will not be taking part in the tender process and a new external auditor will be appointed.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 96. No material shortcomings in the operation of the Committee were highlighted. The Committee considered the outcome of the evaluation at its meeting on 30 March 2016 and it was agreed there was scope to review the length of some Committee papers.

Annual Report and Accounts

The Audit Committee considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Significant issues in relation to the financial statements

The Audit Committee considers a range of significant issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management has to make in preparing the financial statements, and as such they are presented to the Audit Committee in the form of a report prepared by management called the Key Issues and Areas of Judgement Report. In addition the external auditors, PwC, also produce a report for the Audit Committee. For the year ended 31 March 2016, the Committee considered the following significant issues:

- **Measured income accrual** - the Committee reviewed the methodology and outcome of the estimate for measured income for the year ended 31 March 2016, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the end of the period. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption, and we are required to disclose the accuracy of the accrual in our Annual Performance Report (formerly referred to as Regulatory Accounts).

- **Bad debt provision** - the Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience.
- **Treasury** - referring to the assessment of derivative fair values and assessment of hedge effectiveness. Specific fair valuation techniques are required for financial instruments not traded in an active market.
- **Pensions** - the assumptions, chosen by management for valuing the pension scheme assets and liabilities. Examples of assumptions would be mortality rates and discount rates used for discounting pension scheme liabilities. These are set out in note 21 of the financial statements.
- **Taxation** - the Committee considered the treatment of certain tax-related items such as the recoverability of advance corporation tax, and the transparency of tax disclosures in the financial statements.

Further details of the above accounting judgements and estimates are set out in accounting policies note 1 in the financial statements on page 149.

This report was approved by the Board of Directors on 27 May 2016.

John Hirst
Chairman of the Audit Committee
27 May 2016



NOMINATION COMMITTEE REPORT

CHAIRMAN

Stephen Billingham

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Kate Kelly, Group HR Director; and Claire Russell, Company Secretary

OTHER MEMBERS

James Bryce	Niall Mills
Polly Courtice	Christian
Andrew Cox	Seymour*
Steve Good	Paul
John Hirst	Whittaker

COMPOSITION OF THE COMMITTEE

Christopher Garnett stepped down from the Committee on 31 December 2015, when he resigned from the Board and was replaced by John Hirst

MEETINGS

One

DIRECTORS' BIOGRAPHIES

AVAILABLE ON PAGES 87 TO 89

Role of the Committee

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

- Regularly reviewing the structure, size and composition of the Board, and making recommendations to the Board with regard to any changes
- Giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in future
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace

- Taking responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board
- Making recommendations to the Board concerning succession plans for both Executive and Independent Non-Executive Directors.

Only members of the Committee have the right to attend Committee meetings.

➔ Available to view on the Company's website (www.anglianwater.co.uk):

Nomination Committee's terms of reference
Diversity Policy

* An investor appointed representative.

Main activities in the year

Senior Independent Non-Executive Director

At its meeting in November 2015, the Committee recommended to the Board that John Hirst should succeed Christopher Garnett as Senior Independent Non-Executive Director.

Diversity

During the 2013/14 financial year, the Committee agreed a Company-wide diversity policy and diversity action plan. The action plan contains a range of actions around the areas of gender, ethnicity, disability and age. At its meeting in November 2015, the Committee reviewed the progress of the diversity action plan. Encouraging progress had been made in the areas of gender, ethnicity and age but increased focus was required in relation to the recruitment of individuals with disabilities.

At Board level, the Committee has not set a specific female Board member quota. Appointments to the Board are based on the diversity of contribution and required competencies, irrespective of gender, age or any other personal characteristics.

The Company is similarly committed to appointing the best available person to any role within the Company regardless of gender. A high-level breakdown of our male/female employee split across our business appears on page 57 of the Strategic Report.

Succession planning

The Committee also keeps under review the development, succession planning and talent pool for the Management Board and other senior roles to identify both talent strengths and talent gaps.

All business discussed by the Committee during the course of the year was reported to the Board.

Non-Executive Director appointment

Werner Kerschl was appointed as a Non-Executive Director on 3 November 2015. Mr Kerschl was appointed as shareholder representative and as a consequence neither an external search consultancy nor open advertising was used in the appointment.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, as detailed on page 96.

No material shortcomings in the operation of the Committee were highlighted. The Committee considered the outcome of the evaluation at the Board meeting on 31 March 2016 and it was agreed that the Committee should continue to keep the diversity action plan under review.

This report was approved by the Board of Directors on 27 May 2016.

Stephen Billingham

Chairman of the Nomination Committee
27 May 2016



REMUNERATION REPORT

CHAIRMAN

Paul Whittaker

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Kate Kelly, Group HR Director; and Claire Russell, Company Secretary**

OTHER MEMBERS

Stephen Billingham
James Bryce
Polly Courtice
Andrew Cox
Steve Good
John Hirst
Niall Mills
Christian Seymour*

COMPOSITION OF THE COMMITTEE

Christopher Garnett stepped down from the Committee on 31 December 2015 when he resigned from the Board and was replaced by Polly Courtice

MEETINGS

Five

DIRECTORS' BIOGRAPHIES

AVAILABLE ON PAGES 87 TO 89

Annual statement

I am pleased to present the report on Directors' remuneration, which sets out the remuneration policy for Anglian Water Services Limited (AWS), how it was applied in the financial year ended 31 March 2016, and the policy for 2016/17.

Company performance in 2015/16

At the start of AMP6 customers have been provided with the greatest reduction in bills of all water and sewerage companies as a result of efficiencies made during AMP5. This has been coupled with a business plan focused on what customers said was important to them.

Despite the fall in revenue that follows bill reduction, and the significant challenges posed by the introduction of stretching Outcome Delivery Incentives (ODIs), 2015/16 has been a year of very strong performance, exceeding targets in a number of key areas. All ODIs have met their base targets for the year, with three achieving maximum or close to maximum reward as a result of exceptionally strong performance against targets that deliver for the business and customers. Performance in leakage, pollutions and interruptions to supply is particularly strong, with measures for all these areas at their best ever.

As well as avoiding any penalties, 'in year' rewards were delivered against those ODIs that were measured in the period. Stretch performance was also achieved in the year against a number of important ODIs such as Service Incentive Mechanism (SIM) and leakage where rewards are calculated over a longer period. For SIM, the strong performance should ensure a top three finish in 2015/16. It should be noted that, with the exception of leakage, rewards from the ODIs come in AMP7 and therefore any reward earned this year could be offset by poorer years in the AMP.

This success has been achieved in the wake of a challenging AMP6 determination requiring a step change in performance to meet higher customer expectations, new ODI and SIM targets and complex regulatory outputs, while absorbing unfunded cost pressures. It is recognised this has been delivered over a period of mild weather.

In assessing executive performance during 2015/16, the Board considers that the management team has continued to provide very effective leadership through the start of the new AMP, including setting up the new Alliance Frameworks.

* An investor appointed representative.

** No attendee participates in discussions regarding their own remuneration.

Remuneration outcomes in 2015/16

At the start of the year, the Board set targets that focused management on driving improvements across the ODIs, efficiency and ensuring financial returns that maintained investor confidence.

In assessing performance against annual bonus targets detailed later in Table 10, the Committee is satisfied that the Company achieved the stretch target on three measures and just slightly below stretch on Totex Delivery Index (TDI).

As a result of this performance, and the Remuneration Committee's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2015/16 were between 94.4 per cent and 99.8 per cent of annual bonus potential. On 31 March 2016, the performance period ended for long-term incentive awards made in 2013. These awards were based on performance from 1 April 2013 to 31 March 2016 against four performance conditions. In assessing the extent to which these performance conditions had been achieved, the Committee determined that the Company had achieved the stretch target on two of the measures, and achieved performance between base and stretch target on two measures. As a result of this performance over the three-year performance period, the percentage of base award vesting is 85.4 per cent.

Further details of these arrangements, including the bonus and the long-term incentive payments made to each Executive Director, are included in the Implementation Report, which starts on page 110.

Following a review of relevant external benchmark data in 2014/15, the Board agreed that:

- Peter Simpson's basic pay would increase from £445,875 to £465,000 on 1 April 2015 and to £480,000 on 1 April 2016. This included an increase reflecting his promotion to Group CEO in 2013, which was awarded by the Board in 2014 but deferred to April 2015 at Peter's request.
- Scott Longhurst's basic pay would increase from £445,875 to £462,938 on 1 April 2015 and to £480,000 on 1 April 2016.

Consistent with the salary increase for the general workforce, Chris Newsome and Jean Spencer received an increase of 1.4 per cent to basic salary from 1 April 2015.

Details of the remuneration of the Chairman and Independent Non-Executive Directors are set out in Table 17 on page 133.

Other key decisions

As the Committee carried out a full review of executive incentive design in advance of the new Asset Management Period beginning April 2015, the Committee is satisfied that the design of the annual bonus and long-term incentive arrangements and performance conditions remain aligned to the key priorities of the business, and no changes are proposed for 2016/17.

During the year, the Committee also considered the structure and quantum of Group CEO and CFO packages, to ensure they remain appropriate against the market.

The review was supported by external remuneration consultants Kepler, and took into account benchmark data from a large number of other UK water companies and, where appropriate, listed companies.

Paul Whittaker

Chairman of the Remuneration Committee
27 May 2016



REMUNERATION REPORT

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year ended 31 March 2016, and any changes for the year ending 31 March 2017.

Role of the Committee

The Remuneration Committee is a committee of the Board of AWS. The Committee has responsibility for making recommendations to the Board on remuneration policy and structure for the Executive Directors and senior management of AWS. The Committee has defined terms of reference, which are available on the Company's website.

How the Remuneration Committee sets the remuneration policy

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively, and to promote the success of the Company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets. These targets are set by the Board based on key strategic priorities benefiting customers, investors and other stakeholders, and consistent with a Board-approved level of risk.

The overall aim is that Executive Directors' remuneration should be market-competitive relative to other comparable companies, and with a significant proportion being performance-related, and therefore only being paid out if stretching short-term and long-term targets are achieved.

The fees for Non-Executive Directors are reviewed by the Chairman, and any changes are approved by the Board. Under the Articles of Association of the Company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the Company. Non-Executive Directors do not vote on their own remuneration.

The Chairman's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chairman is not involved in setting his own remuneration.

For the Chairman and Independent Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size, and to appropriately reflect the level of responsibility and time commitment involved and the need to attract high-calibre individuals to these roles. Such fees may include additional payments to Independent Non-Executive Directors who chair Board Committees, to reflect the significant additional responsibilities attracted to these duties.

The Chairman and the Non-Executive Directors do not participate in any of the Company's incentive schemes or pension schemes.

Discretion

In accordance with UK regulations, areas where the remuneration policy provides for the exercise of discretion are identified in the report.

Policy on recruitment remuneration

The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this report. The Committee also recognises that where it is in the interests of the Company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances.

Accordingly the Committee will ensure that:

- The salary level of any new Director is competitive with the market and the peer group
- Variable remuneration will be rewarded within the parameters in Table 2
- Where an individual is relocating to take up the role, the Company may provide one-off benefits such as reasonable relocation expenses.

Where an individual would be forfeiting valuable remuneration from their previous employer in order to join the Company, the Committee may structure the remuneration package so as to compensate the individual in whole or in part. The Committee would require reasonable evidence of the nature and value of any forfeited award and, to the extent practicable, would ensure any compensation was no more valuable than the forfeited award, and that it was subject to clawback in the event of early exit.

In making any decision on the remuneration package for a new recruit, the Committee would seek to balance company interests with the requirements of the new recruit, and would strive not to pay more than is necessary to achieve the recruitment.

Service contracts

All Executive Directors appointed to the Board are employed on service contracts of no fixed term, with a notice period of 12 months by the Company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in Table 2. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Remuneration Committee. Currently, each participates in the annual bonus scheme and long-term incentive arrangements, which are described further in the relevant sections of this report.

The service contracts for Executive Directors are available for inspection at the Company's registered office, on reasonable prior notice to the Company Secretary.

The Chairman and the other Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of the Independent Non-Executive Directors' letters of appointment are available at www.anglianwater.co.uk/about-us/terms-of-appointment.aspx.

These appointments may be terminated with six months' notice by either party. No compensation is payable to the Chairman or Non-Executive Directors if the appointment is terminated early.

The current policy is to retain the knowledge and experience of the Independent Non-Executive Directors, subject to performance reviews.

James Bryce, Andrew Cox, Niall Mills and Christian Seymour represent the ultimate owners of the Company. Christian Seymour resigned on 2 November and Werner Kerschl was appointed on 3 November 2015. Christian is still a member of the Remuneration Committee. Consequently they do not have letters of appointment or service contracts, nor do they receive a fee from the Company for their services.

REMUNERATION REPORT

Illustrations of application of the remuneration policy

The charts below show the total potential remuneration that could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2016/17.

In these charts:

- Fixed remuneration is the minimum payable, and is made up of base pay for 2016/17 plus the value of pension and benefits
- The short-term incentive is the annual bonus for 2016/17
- The long-term incentive is the long-term incentive plan (LTIP) under which base awards will be made in 2016/17
- For the annual bonus the Board has set base and stretch targets, or a range of minimum and maximum levels of performance that would qualify for a sliding scale of payments
- For the LTIP, the Board has set base, stretch and super stretch targets
- The 'on target' bar in the charts below therefore shows the percentage of fixed remuneration which could be earned for base levels of performance, or minimum threshold performance where the targets are set as a range.

Maximum performance would result in the maximum annual bonus payment, and 100 per cent of the LTIP award vesting. The LTIP award value illustrated below does not include the uplift to long-term incentive payments based on the average rate of return delivered over the performance period; this is a feature of the current scheme design but, as with share price growth, for which this is a proxy, is not certain.

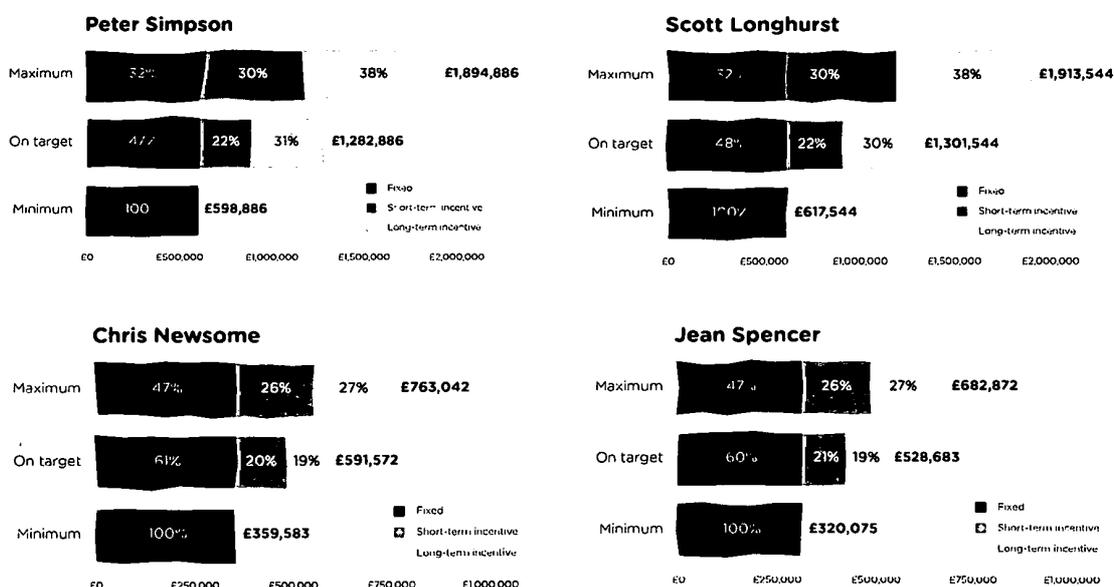
Where super stretch targets have been set, the 'maximum' bar shows the percentage that could be earned for super stretch or stretch performance, depending on whether a super stretch target has been set.

The maximum bars in all the charts include LTIP awards granted in 2016 but which are due to vest in subsequent years; they do not include the LTIP awards granted in 2014, which will vest in May 2017.

Policy on payment for loss of office

No Executive Director has any contractual rights to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance would not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors including the Executive Director's obligation to mitigate their own loss.

Table 1: Total remuneration which could be payable from AWS and AWG in 2016/17, depending on performance



Executive Directors have no entitlement to an annual bonus in respect of the financial year in which the termination occurs. The Committee would consider whether the Director should be eligible for an annual bonus, based on individual and company performance; any payment would normally be reduced to reflect the Director's actual period of service in that financial year.

Rights to any outstanding awards under long-term incentive plans would be dealt with by the Remuneration Committee in accordance with the rules of the relevant scheme. Under these rules, an award is only automatically preserved in cases of death, incapacity, or redundancy within the meaning of the Employment Rights Act 1996. In all other circumstances, the Committee has absolute discretion to determine whether an award is preserved, and if so, the basis on which any payment is made. Where the Committee chose to preserve an award, any payment would normally be pro-rated to reflect how much of the performance period the individual had worked. Further reductions might also be applied if appropriate.

External appointments

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

Consideration of employment conditions elsewhere in the Company

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

- The level of salary increase for the general employee population
- Company-wide benefit provision and any proposed changes
- Overall spend on management bonus arrangements.

The Committee also pays regard to how the total remuneration of the CEO compares with the average pay of employees.

Employee consultation

While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels, and takes these into account when reviewing executive pay.

Use of remuneration comparison measurements

In setting the remuneration policy for the Executive Directors, the Committee takes into account the remuneration practices found in other UK companies of a similar size or operating in the same sector.

Consideration of shareholder views

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

Disclosures of targets and actual performance

The disclosure regulations require detailed information on performance measures and targets to be included in the report unless the Directors consider that information to be commercially sensitive. The Directors are committed to transparent disclosure and will seek to provide the information wherever possible. This report discloses the Company performance measures for all short- and long-term incentive arrangements, but the Board has concluded that the current targets and actual performance for short- and long-term incentives are either commercially sensitive or that including them would involve additional detail disproportionate to any value created by their disclosure, given the already lengthy and detailed nature of this report. The Board will continue to review such targets at the end of each relevant performance period and determine whether any target may be disclosed.

REMUNERATION REPORT

Implementation Report

This part of the Directors' Remuneration Report sets out how the remuneration policy for AWS has been implemented for the year ended 31 March 2016, and any changes for the year ending 31 March 2017.

Framework for remuneration for Executive Directors

The design of the total remuneration package for Executive Directors ensures that a substantial proportion of the maximum opportunity is dependent on performance.

Based on the maximum value of the 2013 long-term incentive plan award, and achievement of stretch performance against targets and personal objectives for the annual bonus, the total annual remuneration (excluding pension benefits) is weighted at around 73 per cent performance-related and 27 per cent non-performance-related for Peter Simpson and Scott Longhurst.

For Chris Newsome and Jean Spencer it is around 53 per cent performance-related and 47 per cent non-performance-related.

Table 2: Policy table - key elements of remuneration for the Executive Directors

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2016/17
Base salary				
Help recruit and retain employees.	Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by: <ul style="list-style-type: none"> - Role, experience and performance - Average change in broader workforce salary - Total organisational salary budgets. Salaries are benchmarked against the FTSE 250 and other comparable utility companies.	Other than where an individual changes roles, or where benchmarking indicates that an individual's salary requires realignment to remain competitive, annual increases will not exceed the general level of increases for the Company's employees.	n/a	Following a review of relevant external benchmarking data in 2014/15, the Board agreed that from 1 April 2016 the salaries for Peter Simpson and Scott Longhurst will increase to £480,000. Jean Spencer and Chris Newsome will receive a base salary increase of 1.5%, consistent with the increase awarded for the general workforce.
Benefits				
Help recruit and retain employees.	Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.	For Peter Simpson the value of these benefits is equivalent to 4% of basic pay. For Scott Longhurst it is 3.8%. For Chris Newsome it is 9.0% and for Jean Spencer it is 6.4%.	n/a	No changes proposed.

Table 2: Policy table - key elements of remuneration for the Executive Directors (continued)

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2016/17
Annual bonus				
Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives.	<p>Company targets are set and reviewed annually, and summarised in a performance contract. Personal objectives relate to areas of the business over which the Executive has particular control.</p> <p>Bonus payment is determined by the Committee after the year end, based on performance against company targets and personal objectives. The Committee has the discretion to reduce the bonus in the event of material issues in relation to service, health and safety, quality, financial performance, reputation and regulatory performance.</p>	<p>Peter Simpson's maximum annual bonus potential is 120% of base salary.</p> <p>70% of this is based on company targets and 30% on personal objectives. Peter Simpson receives up to 60% of base salary for achieving base targets, and up to 120% for achieving stretch targets.</p> <p>Scott Longhurst's maximum annual bonus potential is 120% of base salary. 70% of this is based on company targets (including the performance of the non-regulated businesses he manages), and 30% on personal objectives.</p> <p>Scott Longhurst receives up to 60% of base salary for achieving base targets, and up to 120% for achieving stretch targets.</p> <p>Chris Newsome and Jean Spencer's maximum annual bonus potential is 75% of base salary.</p> <p>70% of this is based on company targets, and 30% on personal objectives. They receive up to 45% of base salary for achieving base targets, and up to 75% for achieving stretch targets.</p>	Basket of financial and non-financial metrics, plus personal objectives. These are explained in more detail in the section on annual bonus later in this report.	No changes proposed.
Long-term incentive plan (LTIP)				
Incentivises Directors to deliver sustained long-term performance.	<p>Long-term incentive awards are granted each year in June and are paid out at the end of the performance period, subject to the achievement of performance conditions.</p> <p>The structure and quantum of new awards and eligibility are reviewed annually to ensure they continue to support our strategy.</p>	<p>150% of salary for Peter Simpson and Scott Longhurst.</p> <p>75% of salary for Chris Newsome and Jean Spencer.</p>	Awards vest at the end of the three-year performance period, based on achievement of specified performance conditions.	No changes proposed.
			The performance conditions are shown under the long-term incentive plan (LTIP) section of this report.	

REMUNERATION REPORT

Table 2: Policy table - key elements of remuneration for the Executive Directors (continued)

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2016/17
Pension				
To attract and retain high-calibre individuals by providing good-quality pension arrangements.	<p>AWS closed its defined benefit pension arrangement to new joiners in 2002, but Peter Simpson remained a member until 19 March 2016. Members pay different employee contributions depending on their accrual rate. Peter Simpson's accrual rate is 1/60th.</p> <p>AWS also operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.</p> <p>This is subject to tax and national insurance deductions.</p>	<p>Peter Simpson was a member of the defined benefit section of the Anglian Water Group Pension Scheme (AWGPS) until 19 March 2016 when he ceased being a member to avoid exceeding the lifetime allowance.</p> <p>Until this date he paid 10% of his pensionable salary into the defined benefit section, up to a cap which is currently £138,885. This cap is reviewed annually.</p> <p>From 20 March 2016, to meet the contractual commitment, the Company paid 15.5% of Peter Simpson's salary up to the cap delivered as a cash payment, which is subject to tax and national insurance deductions.</p> <p>Peter Simpson ceased saving into the defined contribution pension arrangement from 1 April 2013.</p> <p>The contractual commitment in respect of company contributions into Peter Simpson's pension above the cap (£138,885) is delivered through a cash payment of 15%, which is subject to tax and national insurance deductions.</p> <p>Peter Simpson remains covered for death benefits through the scheme.</p> <p>The Company has a contractual commitment to pay 25% of salary into a pension arrangement for Scott Longhurst, Chris Newsome and Jean Spencer.</p> <p>To avoid exceeding the lifetime allowance, Scott Longhurst ceased saving into the defined contribution arrangement during 2011/12. Chris Newsome ceased saving from 1 January 2014, and Jean Spencer from 1 February 2014.</p> <p>The contractual commitment in respect of company contributions to pensions for Scott Longhurst, Chris Newsome and Jean Spencer is delivered through a cash payment, which is subject to tax and national insurance deductions.</p> <p>Scott Longhurst, Chris Newsome and Jean Spencer remain covered for death benefits through the scheme.</p>	n/a	As Peter Simpson has now ceased saving into both the defined benefit and defined contribution sections of AWGPS he will receive his full contractual commitment as a cash payment, which is subject to tax and national insurance deductions.

Elements of Directors' remuneration package as a percentage of salary

The tables below show the proportion of payments related to variable and long-term performance for 2014/15 and 2015/16. The designs of the long-term incentive arrangements included a range of minimum

and maximum levels of performance that would qualify for a sliding scale of payments, rather than base or target performance levels. The tables therefore show the percentage of base salary that could be earned for minimum and maximum performance levels.

Table 3: Peter Simpson

Component of remuneration	2014/15 value (% of base pay)		2015/16 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	4.4	4.4	4.0	4.0
Pension ²	12.5	12.5	15.1	15.1
Bonus	60.0	120.0	60.0	120.0
Long-term incentive plan (LTIP) ³	12.5	100.0	82.5	150.0
Total as % of base pay	189.4	336.5	261.6	389.1
Variable pay - bonus and LTIP (as % of base pay)	38.3	65.3	54.5	69.4
Long-term pay - LTIP and pension (as % of base pay)	13.2	33.4	37.3	42.4

¹ Benefits are private health insurance, car allowance, private fuel and life assurance.

² Pension costs for Peter Simpson included the Company's contribution to his defined benefit pension arrangement until 19 March 2015, which is based on 12.5 per cent of his pensionable salary up to the current cap of £138,885. From 20 March 2016 this amount was delivered as a cash payment subject to tax and national insurance. In addition he received a cash payment in lieu of the Company's contractual commitment to pay 15 per cent of his salary above the cap into his defined contribution pension arrangement. As explained in Table 2, Peter Simpson ceased saving into the defined contribution arrangement from 1 April 2013 and the defined benefit arrangement from 20 March 2016. The cash payment is subject to tax deductions and national insurance contributions.

³ For 2014/15, this table does not include an award of 50 per cent of base salary, made under an additional LTIP, and paid for by AWG. Further information is provided in Table 14, page 128.

Table 3 (continued): Scott Longhurst

Component of remuneration	2014/15 value (% of base pay)		2015/16 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	4.3	4.3	3.8	3.8
Pension	25.0	25.0	25.0	25.0
Bonus	60.0	120.0	60.0	120.0
Long-term incentive plan (LTIP) ²	12.5	100.0	82.5	150.0
Total as % of base pay	201.8	349.3	271.3	398.8
Variable pay - bonus and LTIP (as % of base pay)	35.9	63.0	52.5	67.7
Long-term pay - LTIP and pension (as % of base pay)	18.6	35.8	39.6	43.9

¹ Benefits are private health insurance, car allowance, private fuel and life assurance.

² For 2014/15, this table does not include an award of 50 per cent of base salary, made under an additional LTIP, and paid for by AWG. Further information is provided in Table 14, page 128.

REMUNERATION REPORT

Table 3 (continued): Chris Newsome

Component of remuneration	2014/15 value (% of base pay)		2015/16 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	9.7	9.7	9.0	9.0
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	9.4	75.0	41.3	75.0
Total as % of base pay	189.1	284.7	220.3	284.0
Variable pay - bonus and LTIP (as % of base pay)	28.8	52.7	39.2	52.8
Long-term pay - LTIP and pension (as % of base pay)	18.2	35.1	30.1	35.2

¹ Benefits are private health insurance, car allowance, private fuel and life assurance.

Table 3 (continued): Jean Spencer

Component of remuneration	2014/15 value (% of base pay)		2015/16 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	6.7	6.7	6.4	6.4
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	9.4	75.0	41.3	75.0
Total as % of base pay	186.1	281.7	217.7	281.4
Variable pay - bonus and LTIP (as % of base pay)	29.2	53.2	39.6	53.3
Long-term pay - LTIP and pension (as % of base pay)	18.5	35.5	30.4	35.5

¹ Benefits are private health insurance, car allowance, private fuel and life assurance.

Outcomes for 2015/16
Single total remuneration figure (audited)

Table 4: Total Executive Directors' remuneration

	Total paid by Anglian Water Services											
	Base pay £		Taxable benefits ¹ £		Pension including cash in lieu ² £		Annual bonus £		LTIP ³ £		Total AWS £	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Scott Longhurst	267,525	277,763	11,402	10,526	70,627	73,329	255,058	327,260	0	0	604,612	688,878
Chris Newsome	261,339	264,998	25,279	23,982	65,708	66,628	151,278	186,495	156,666	172,792	660,270	714,895
Peter Simpson	312,113	325,500	13,603	13,136	67,716	77,700	283,804	389,917	374,209	412,725	1,051,445	1,218,978
Jean Spencer	235,000	238,290	15,814	15,302	62,040	62,909	141,964	177,276	119,202	131,472	574,020	625,249
Total Executive Directors	1,075,977	1,106,551	66,098	62,946	266,091	280,566	832,104	1,080,948	650,077	716,989	2,890,347	3,248,000

	Total paid by other parts of the AWG group											
	Base pay £		Taxable benefits ¹ £		Pension including cash in lieu ² £		Annual bonus £		LTIP ³ £		Total AWG group £	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Scott Longhurst	178,350	185,175	7,601	7,017	47,084	48,886	170,039	218,174	374,209	1,142,781	777,283	1,602,033
Chris Newsome	0	0	0	0	0	0	0	0	0	0	0	0
Peter Simpson	133,763	139,500	5,830	5,630	29,021	33,300	121,630	167,107	0	730,056	290,244	1,075,593
Jean Spencer	0	0	0	0	0	0	0	0	0	0	0	0
Total Executive Directors	312,113	324,675	13,431	12,647	76,105	82,186	291,669	385,281	374,209	1,872,837	1,067,527	2,677,626

Outcomes for 2015/16

Single total remuneration figure (audited)

Table 4: Total Executive Directors' remuneration (continued)

	Base pay £		Taxable benefits ¹ £		Total paid by all AWG companies						Total AWG companies £	
					Pension including cash in lieu ² £		Annual bonus £		LTIP ³ £			
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Scott Longhurst	445,875	462,938	19,003	17,543	117,711	122,215	425,097	545,434	374,209	1,142,781	1,381,895	2,290,911
Chris Newsome	261,339	264,998	25,279	23,982	65,708	66,628	151,278	186,495	156,666	172,792	660,270	714,895
Peter Simpson	445,876	465,000	19,433	18,766	96,737	111,000	405,434	557,024	374,209	1,142,781	1,341,689	2,294,571
Jean Spencer	235,000	238,290	15,814	15,302	62,040	62,909	141,964	177,276	119,202	131,472	574,020	625,249
Total Executive Directors	1,388,090	1,431,226	79,529	75,593	342,196	362,752	1,123,773	1,466,229	1,024,286	2,589,826	3,957,874	5,925,626

¹ Benefits are private health insurance, car allowance, private fuel and life assurance.

² Pension costs include company contributions into company pension arrangements, including cash payments in lieu of contractual commitments.

³ This long-term incentive payment relates to the award for the three-year performance period ending in March 2016 and in addition the separate long-term incentive plan detailed in Table 13. Both include the uplift of the base award by the average rate of return delivered over the performance period, which is a feature of the scheme designs.

⁴ The value of the increase in defined benefit accrual for Peter Simpson has been calculated using the methodology stated in the Large and Medium Sized Companies and Groups (Accounts and reports) (Amendment) Regulations 2013; this uses 20 times the increase in accrued pension for the year (less the contributions paid by the members), and September CPI inflation for the previous year. For 2014 the relevant rate was the September 2013 CPI, which was 2.5 per cent. For 2015 the relevant rate was the September 2014 CPI, which was 1.2 per cent.

Cost allocations

The remuneration costs of Peter Simpson and Scott Longhurst are allocated between AWS and other AWG group companies based on the companies to which qualifying services are provided.

As Group CEO, Peter Simpson spends a proportion of his time on Group-wide matters. Consequently, 70 per cent of his basic salary, benefits, pension and annual bonus costs are charged to the Company. Thirty six per cent of his long-term incentives are charged to the Company.

During 2015/16, Scott Longhurst's role included responsibility for corporate activities beyond the water company, including responsibility for our remaining international and property

businesses, and our retail business Anglian Water Business. Sixty per cent of his basic salary, benefits, pension and annual bonus costs are charged to the Company. A hundred per cent of his long-term incentive arrangements are paid for by AWG.

All the remuneration costs of Chris Newsome and Jean Spencer are paid by the Company.

Percentage change in CEO remuneration

Table 5 shows the percentage change in the remuneration of the Director undertaking the role of CEO over the past seven financial years, in accordance with the disclosures required under UK regulations.

Table 5

	Peter Simpson 2015/16	Peter Simpson 2014/15	Peter Simpson 2013/14	Peter Simpson 2012/13	Peter Simpson 2011/12	Peter Simpson 2010/11	Peter Simpson 2009/10	Jonson Cox ¹ 2009/10
Total remuneration of CEO £	2,294,571	1,341,689	1,415,791	1,407,060	1,168,121	1,090,583	119,642	8,101,226
% change in remuneration of CEO	71	(5.2)	0.6	20.5	7.1	(86.7)	-	-
Annual bonus paid as a % of maximum potential	99.8	75.8	90.4	95.9	96.4	93.8	95.5	98.2
LTIP paid as a % of maximum potential ^{2,3}	94.2	77.5	98.1	97.3	90.0	57.0	97.5	100.0

¹ Jonson Cox stepped down as CEO of the Anglian Water Group of companies on 29 January 2010. From that date, Peter Simpson became Managing Director of Anglian Water Services. The figures in the above table for 2009/10 reflect the proportion of time Jonson Cox and Peter Simpson were performing these roles and exclude amounts paid in respect of compensation for loss of office. In addition to his role as Managing Director of Anglian Water Services, Peter Simpson was appointed Group CEO in October 2013.

Jonson Cox's LTIP payment related to a long-term incentive award made under the AWG 2007 Executive Director Long-Term Incentive Plan, and covered performance over a number of years.

² The maximum potential payable under the LTIP is the maximum payable at 100 per cent vesting, but excludes the uplift of the base award by the average rate of return delivered over the performance period, which is a feature of the LTIP scheme design. The total remuneration of the CEO includes the uplift which was actually paid.

³ The additional AWG LTIP for Peter Simpson which vested on 31 March 2016 is paid for by Anglian Water Group and not the Company.

REMUNERATION REPORT

Percentage change in CEO remuneration compared with other employees

Table 6 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2014/15 to 2015/16. 'Other employees' are the employees of Anglian Water Services and AWG Central Services, who have been employed for the full 2015/16 year. This group excludes the senior executives on the Management Board of Anglian Water Services, and has been chosen because they are considered to be the most representative of the overall workforce.

Table 6

	% change in CEO remuneration 2015/16 vs 2014/15	% change in remuneration for other employees 2015/16 vs 2014/15
Base pay ¹	4.3	2.8
Taxable benefits ²	(3.4)	3.6
Annual bonus ³	37.4	13.0
Annual bonus including special outperformance bonus ⁴	37.4	27.6

¹ Includes company-wide annual pay review and salary progression.

² The reduction in taxable benefits for the CEO relates to a reduction of £668 for the cost of private fuel. Increase for 'other employees' relates to the year-on-year increase in the benefit charge on company cars, based on CO₂ emissions, under the Income Tax (Earnings and Pensions) Act 2003 and an overall increase in the number of employees receiving a car benefit.

³ The increase in the percentage change in annual bonus for the CEO reflects the significantly high level of outperformance as mentioned earlier in the report. Further details can be found in Table 10.

⁴ This relates to a special bonus for outperformance in the 2015/16 year to be paid to the general workforce in July 2016. This is not part of our annual bonus arrangements and the CEO and Senior Management Team did not participate.

Relative importance of spend on pay

Table 7 sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2015 and 31 March 2016.

Table 7

	AWS		% change
	2015/16 £m	2014/15 £m	
Remuneration paid to employees ¹	180.2	166.6	8.2
Distribution to shareholders	152.2	180.2	(15.5)
Capital investment ²	269.4	360.1	(25.2)

¹ Remuneration paid to employees has increased by 8.2 per cent. This includes an annual pay increase for all employees of 1.4 per cent, additional increases as a result of development within roles and retention, plus employee numbers rose by 5.8 per cent.

² Capital investment is lower in 2015/16 compared to the prior year to reflect a typical lower spend in year one of a new AMP.

Base pay

When assessing the pay awards for each of the Executive Directors and senior managers, the Remuneration Committee considers the remuneration increases for employees throughout the Group. In 2014/15, the Board agreed that:

- Peter Simpson's basic pay would increase from £445,875 to £465,000 on 1 April 2015 and to £480,000 on 1 April 2016. This included an increase reflecting his promotion to Group CEO in 2013, which was awarded by the Board in 2014 but deferred to April 2015 at Peter's request.
- Scott Longhurst's basic pay would increase from £445,875 to £462,938 on 1 April 2015, and to £480,000 on 1 April 2016.

Consistent with the salary increase for the general workforce, Chris Newsome and Jean Spencer received an increase of 1.4 per cent to basic salary from 1 April 2015.

Total pension entitlement

The defined benefit section of the Anglian Water Group Pension Scheme was closed to new entrants in 2002. The scheme provides funded defined benefit pension arrangements. Peter Simpson was still a member until 20 March 2016 as explained in Table 2, and contributes up to a capped salary level.

The normal retirement age for the section of which Peter Simpson is a member is 65. If he retired early, his pension would be reduced on the same basis as would apply to members in the general workforce.

Details of the pension benefits that accrued during the year to 31 March 2016 are summarised below:

Table 8 (Audited)

	Accrued pension at 31 March 2016 £	Accrued pension at 31 March 2015 £	Increase in accrued pension £
Peter Simpson	68,350	64,068	4,282

Annual bonus

Framework for 2015/16

The annual bonus is designed to incentivise performance against a basket of financial and non-financial company measures, and a set of personal objectives for each Executive Director. At the start of the year, the Committee chooses measures to reflect the key priorities of the business, and sets base, stretch and where appropriate, minimum threshold targets for each measure. Wherever possible, quantifiable targets that can be objectively assessed are used. The Committee has discretion to amend company and personal objectives during the year if they become inappropriate.

At year end, when assessing performance against company and personal objectives, the Committee considers any other results or factors it deems relevant, and applies its overall judgement in recommending final bonus outcomes to the Board. In doing so, the Committee also has discretion to adjust payment downwards for material issues on service, quality, health and safety, reputation, and financial and regulatory performance even when the Executive Director has achieved their personal objectives. The Committee may also at their discretion claw back annual bonus already paid, where in their judgement there has been serious misconduct.

Table 9 shows the performance measures and weightings for the annual bonus for 2015/16.

REMUNERATION REPORT

Table 9: Annual bonus plan for Executive Directors

	Weighting as % of base pay 2015/16		
Performance measures	Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
Financial measures	33.60	28.80	21.00
Free cash flow	16.80	14.40	10.50
EBITDA	16.80	14.40	10.50
Non-financial measures	50.40	43.20	31.50
Outcome Delivery Incentives (ODIs) ¹	25.20	21.60	15.75
Totex Delivery Index (TDI) ²	25.20	21.60	15.75
Non-regulated businesses' performance	0.00	12.00	0.00
Personal objectives	36.00	36.00	22.50
Total % base pay	120.00	120.00	75.00

¹ As part of our Business Plan for 2015-2020, the Company has agreed with our customers and Ofwat a set of challenging targets or 'outcomes', underpinned by financial rewards and penalties depending on whether the targets are achieved. The Board has selected the outcomes of most importance to customers, and set annual targets for achievement on each outcome. These annual targets have been included in the annual bonus. To keep the bonus design simple, the performance on the outcomes is measured through an overall ODI Scorecard. Within the Scorecard, each outcome has a maximum number of points, which reflect the size of the associated financial reward or penalty.

The ODI Scorecard comprises targets for:

- * The Service Incentive Mechanism (explained below)
- * Reduction in total number of minutes customers' water supplies are interrupted
- * Reducing water lost through leakage
- * Reducing pollution incidents
- * Increasing the number of bathing waters in our region classed as excellent
- * Reducing the number of properties affected by low water pressure
- * Reducing the number of properties flooded internally and externally from sewers
- * Reducing the number of contacts from customers about drinking water quality and acceptability (including appearance, taste and odour)
- * Customer perceptions of affordability, fair bills and value for money
- * Improving water efficiency (per property consumption).

² The Totex Delivery Index replaces the Capital Delivery Index as a measure of efficient delivery of our investment programme, and reflects the move to totex-based regulation from 2015.

The Service Incentive Mechanism has two parts: a qualitative part based on surveys of customer satisfaction, and a quantitative part (the number of customer complaints and the level of customer contacts that indicate poor service such as written complaints and telephone calls classed as unwanted). Ofwat conducts customer satisfaction surveys and publishes the relative scores of all water and sewerage companies in England and Wales for both qualitative and quantitative measures. The Company's annual bonus targets have been set based on these relative scores. Consistent with the way Ofwat now weights the qualitative and quantitative part of the measure, 75% of this bonus element is based on the qualitative part of the measure and 25% on quantitative.

Outcomes for 2015/16

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on three measures and just below stretch on Totex Delivery Index (TDI).

Overall, financial performance has been strong throughout the year. EBITDA was above stretch in the year. Revenue was very close to budget, while opex and capital maintenance were better than base budget, reflecting efficiencies delivered in the year.

Cash performance also achieved stretch levels including very strong performance on revenue cash collected from customers, reflecting the success of a series of specific management initiatives. The cash performance also benefited from the cash impact of the opex and maintenance outperformance detailed above.

In terms of the non-financial measures, overall the performance in the year was above stretch against all of the major ODIs and, as a consequence, we have achieved the stretch target against the total scorecard. In the performance period, we have successfully avoided potential penalties by taking action to reduce interruptions to supply, pollutions, leakage and maintaining serviceability. We do not adjust these targets for external conditions whether mild or severe.

In the case of the Service Incentive Mechanism (SIM), our strong performance should ensure a minimum of third in 2015/16, which will be confirmed shortly by Ofwat.

For totex this was an extremely successful year, achieving marginally below the challenging stretch financial outperformance while improving the on-time delivery of projects, and the stretch target was achieved.

The Remuneration Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 99.7 per cent for Peter Simpson and Scott Longhurst, and 99.8 per cent for Chris Newsome and Jean Spencer.

As a result of this performance, and the Remuneration Committee's review of the Chief Executive's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2015/16 were between 94.4 per cent and 99.8 per cent of annual bonus potential.

REMUNERATION REPORT

Table 10: Annual bonus payments to Executive Directors (audited)

	Peter Simpson		Scott Longhurst		Chris Newsome		Jean Spencer	
	Weight for 2015/16 (as % of base pay)	Outcome %	Weight for 2015/16 (as % of base pay)	Outcome %	Weight for 2015/16 (as % of base pay)	Outcome %	Weight for 2015/16 (as % of base pay)	Outcome %
Financial measure	33.60	33.60	28.80	28.80	21.00	21.00	21.00	21.00
Free cash flow	16.80	16.80	14.40	14.40	10.50	10.50	10.50	10.50
EBITDA	16.80	16.80	14.40	14.40	10.50	10.50	10.50	10.50
Non-financial measures¹	50.40	50.19	43.20	43.02	31.50	31.40	31.50	31.40
Outcome Delivery Incentives (ODI)	25.20	25.20	21.60	21.60	15.75	15.75	15.75	15.75
Totex Delivery Index (TDI)	25.20	24.99	21.60	21.42	15.75	15.65	15.75	15.65
Non-regulated businesses' performance	0	0	12.00	12.00	0	0	0	0
Personal objectives	36.00	36.00	36.00	34.00	22.50	21.50	22.50	22.50
Total % base pay	120.00	119.79	120.00	117.82	75.00	73.90	75.00	74.40
Base pay £		465,000		462,938		252,379		238,290
Bonus paid £		557,024		545,434		186,495		177,276

¹ The non-financial measures are explained in the notes to Table 9.

Changes for 2016/17

The Committee carried out a thorough review of incentives in 2014/15 to ensure they were aligned to the key priorities for AMP6. The Committee considered the structure of incentive design again in 2015/16 and proposes no changes for 2016/17.

The performance metrics for 2016/17 are shown in Table 11. The Board has set stretching targets for all measures.

Table 11: Annual bonus 2016/17 - performance measures and weightings

Performance measures	Weightings as % of base pay		
	Peter Simpson	Scott Longhurst	Chris Newsome and Jean Spencer
Financial measures	33.60	28.80	21.00
Free cash flow	16.80	14.40	10.50
EBITDA	16.80	14.40	10.50
Non-financial measures	50.40	43.20	31.50
Outcome Delivery Incentives (ODIs) ¹	25.20	21.60	15.75
Totex Delivery Index (TDI) ²	25.20	21.60	15.75
Non-regulated businesses' performance	0.00	12.00	0.00
Personal objectives	36.00	36.00	22.50
Total % base pay	120.00	120.00	75.00

¹ and ² The ODI and TDI are further explained in Table 9, notes 1 and 2.

REMUNERATION REPORT

Long-term incentive plan

Framework for 2015/16

The AWG long-term incentive plan (LTIP) is designed to reward and incentivise senior executives who can influence the long-term performance of the Company and deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees are granted a conditional award entitling them to a cash payout subject to the achievement of performance conditions over a specific performance period. Long-term incentive awards are granted each year in June.

The minimum vesting of the base award value is zero and maximum vesting is 100 per cent. In order to align the interests of executives with those of shareholders, the payment is uplifted by the average annual rate of return over the performance period.

Maximum conditional cash awards granted under the LTIP are shown in Table 14 (base value of awards). The actual amount paid will depend on the achievement of the performance conditions and the rate of return over the relevant performance period.

Under the rules of the LTIP, the Committee has discretion to:

- Substitute, vary or waive the performance conditions, providing that any new condition produces a fairer assessment of performance and is not materially more difficult to satisfy
- Withhold up to 30 per cent of payment should there be material performance issues on water quality, health and safety, reputation or credit rating
- Determine the treatment of awards held by leavers, unless they are leaving due to death, incapacity or redundancy under the meaning of the Employment Rights Act 1996. The Committee's discretion extends to making recommendations to the Board on whether a participant may retain their award, on what basis and performance conditions, the extent to which an award would vest, and the timing of any payment. Further details are described earlier in this report, in the section on Policy on payment for loss of office (page 108)
- Defer payment until the data required to assess performance is available or verified by a third party where this is required
- Apply a further detractor for poor serviceability. Serviceability is explained below in Table 13, note 1
- Claw back bonus already paid, where in the judgement of the Committee, there has been serious misconduct.

Additional long-term incentive plan

As explained in the 2014 Report, Peter Simpson and Scott Longhurst also participate in a separate long-term incentive plan as described in Table 2. Awards under this plan were made in 2012, 2013 and 2014, and vest in 2016, based on achievement of the performance conditions set out in Table 12.

Table 12: Performance conditions and weightings for additional long-term incentive plan

Performance measure	Description	Weighting as % of base pay
Rate of return	AMP6 Business Plan capable of delivering targeted rate of return.	20.0
AWS credit rating	AWS credit rating maintained at current level.	12.5
Market reform	Preparedness to meet challenges of structural reform of the industry.	12.5
Calibre of management team	Board satisfaction with calibre of key members of Operational and Financial Management Teams.	5.0

As part of the review of incentives undertaken by the Committee during 2014, the Board agreed to simplify the remuneration structure: from June 2015, Peter Simpson and Scott Longhurst each receive annual awards worth 150 per cent of basic salary under the new LTIP, rather than two separate awards totalling 150 per cent under previous arrangements. No further awards have been made to them under the additional LTIP described in the 2014 Remuneration Report.

REMUNERATION REPORT

Outcomes in 2015/16

Long-term incentive 2013

The 2013 award under the AWG long-term incentive plan vested in May 2016. Table 13 shows the performance measures and weightings for the awards made in 2013. The performance period ran from 1 April 2013 to 31 March 2016.

Table 13

Performance measure	Description	Overall weighting as a % of base pay
Rate of return	Achievement of targeted average rate of return over the performance period.	40% for Peter Simpson and Scott Longhurst 30% for Jean Spencer and Chris Newsome
Serviceability ¹	Achievement of stable serviceability across all four asset classes.	20% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome
Capital Delivery Index ²	An aggregate index of four measures of efficient delivery of our capital programme. The average CDI score over the performance period must be 95% for maximum vesting of this element.	20% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome
Service Incentive Mechanism ³	Maintain an average of at least third position among the water and sewerage companies, and be in at least third position in the final year of the performance period.	20% for Peter Simpson and Scott Longhurst 15% for Jean Spencer and Chris Newsome

¹ The Company operates within a serviceability framework that has been established by Ofwat to measure the effective maintenance and operation of the Company's assets. Ofwat monitors the performance of water and sewerage companies against this framework. Companies can be assessed as either improving, stable, marginal or deteriorating. The four asset classes are Water Infrastructure, Water Non-Infrastructure, Sewerage Infrastructure and Sewerage Non-Infrastructure. When this measure was first included in the LTIP, it was normal practice for Ofwat to make their own assessment of serviceability status; this included a review by an independent reporter of all data informing the assessment. Ofwat has since replaced this practice with a self-governing process under which the Board assures the accuracy of their serviceability performance indicators as part of the Company's Risk and Compliance Statement. Assurance is provided to the Board by external reviews carried out by Halcrow, who previously carried out the role of reporter, and PwC. Under the new process, in accepting the Company's position, Ofwat reserves the right to reach a different conclusion at any time in the future should subsequent information indicate it appropriate.

In our Business Plan for PR14 the AWG Board replaced the former serviceability measure with a new serviceability ODI for AMP6. This was accepted by Ofwat and included in our Final Determination. Within our ODI we discontinued some of the measures that were part of the previous AMP5 assessment but have continued to record them for 2015/16 to enable assessment for the 2013 LTIP.

² The Capital Delivery Index is an aggregate index of our targets set by the Board, measuring efficient delivery of our capital programme.

³ The Service Incentive Mechanism has two parts: a qualitative part based on surveys of customer satisfaction, and a quantitative part (the number of customer complaints and the level of customer contacts that indicate poor service such as written complaints and telephone calls classed as unwanted). Ofwat conducts customer satisfaction surveys and publishes the relative scores of all water and sewerage companies in England and Wales for both qualitative and quantitative measures. The Company's annual bonus targets have been set based on these relative scores. Consistent with the way Ofwat now weights the qualitative and quantitative part of the measure, 75 per cent of this bonus element is based on the qualitative part of the measure and 25 per cent on quantitative.

In making recommendations to the Board on the extent to which these performance conditions had been achieved, the Committee concluded that the Company had outperformed the stretch target on two of the four measures (the Capital Delivery Index and the Service Incentive Mechanism) and had achieved performance between base and stretch target on the rate of return measure and serviceability measure. Ofwat has confirmed stable serviceability for 2013/14 and confirmation of stable serviceability for 2014/15 is anticipated within the next few months.

Ofwat will no longer make a serviceability assessment for 2015/16. By reproducing their assessment, replicating the methodology they published at PR14 confirms that Ofwat would have made assessments of stable across all four asset classes for 2015/16. The Committee concluded that the serviceability measure was therefore achieved.

The Remuneration Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 85.4 per cent. Under the design of the scheme, awards are uplifted by the average rate of return over the performance period. For the 2013 LTIP, this was 11.1 per cent.

As explained on page 124, the Board has discretion to withhold up to 30 per cent of the LTIP award for certain material issues. Having reviewed the Company's performance in detail, the Committee recommended that there had been no material performance issues over the three-year performance period warranting the use of this discretion.

REMUNERATION REPORT

Table 14: Payments to Executive Directors during 2015/16, and the value of other long-term incentives they hold that have not yet vested (audited)

LTIP award	Performance measure	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2015 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2016 £	Value of awards that vested at Remuneration Committee on 26 May 2016 £
Peter Simpson								
2013 LTIP Award¹		6 June 2013	31 March 2016		435,000	0	435,000	412,725
	Rate of return			27.1%				
	Serviceability			18.3%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
2014 LTIP Award		4 June 2014	31 March 2017		445,875	0	445,875	
2015 LTIP Award		1 June 2015	31 March 2018		0	697,500	697,500	
2012 AWG LTIP²		29 Nov 2012	31 March 2016		217,500	0	217,500	242,513
	Rate of return			40%				
	AWS credit rating			25%				
	Preparedness for market reform			25%				
	Calibre of management team			10%				
2013 AWG LTIP²		6 June 2013	31 March 2016		217,500	0	217,500	241,642
2014 AWG LTIP²		4 June 2014	31 March 2016		222,938	0	222,938	245,900
Scott Longhurst								
2013 LTIP Award³		6 June 2013	31 March 2016		435,000	0	435,000	412,725
	Rate of return			27.1%				
	Serviceability			18.3%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
2014 LTIP Award		4 June 2014	31 March 2017		445,875	0	445,875	
2015 LTIP Award		1 June 2015	31 March 2018		0	694,407	694,407	
2012 AWG LTIP					217,500	0	217,500	242,513
	Rate of return			40%				
	AWS credit rating			25%				
	Preparedness for market reform			25%				
	Calibre of management team			10%				
2013 AWG LTIP		6 June 2013	31 March 2016		217,500	0	217,500	241,642
2014 AWG LTIP		4 June 2014	31 March 2016		217,500	0	217,500	245,900

Table 14: Payments to Executive Directors during 2015/16, and the value of other long-term incentives they hold that have not yet vested (audited) (continued)

LTIP award	Performance measure	Date of award	End of performance period	Measure achieved	Base value of awards held at 31 March 2015 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2016 £	Value of awards that vested at Remuneration Committee on 26 May 2016 £
Chris Newsome								
2013 LTIP Award		6 June 2013	31 March 2016		182,117	0	182,117	172,792
	Rate of return			27.1%				
	Serviceability			18.3%				
	Capital Delivery Index			20%				
	Service Delivery Mechanism			20%				
2014 LTIP Award		4 June 2014	31 March 2017		196,003	0	196,003	
2015 LTIP Award		1 June 2015	31 March 2018		0	186,670	186,670	
Jean Spencer								
2013 LTIP Award		6 June 2013	31 March 2018		138,567	0	138,567	131,472
	Rate of return			27.1%				
	Serviceability			18.3%				
	Capital Delivery Index			20%				
	Service Incentive Mechanism			20%				
2014 LTIP Award		4 June 2014	31 March 2017		180,656	0	180,656	
2015 LTIP Award		1 June 2013	31 March 2018		0	176,250	176,250	

¹ The cost of this long-term incentive payment to Peter Simpson was paid by the Company.

² This incentive is paid for by AWG and not charged to the Company.

³ The cost of Scott Longhurst's long-term incentives are paid by AWG and are not charged to the Company.

The performance condition on serviceability was dependent on achieving an assessment of 'stable' in the final year of the performance period. Ofwat has yet to formally determine Anglian Water's performance but based on discussions and the evidence the Company has presented, we anticipate that performance will be assessed as stable across all four asset classes. Should Ofwat subsequently reach a different conclusion, an appropriate clawback would be applied.

REMUNERATION REPORT

2016 awards

The Committee intends to make further awards in June 2016, and the Board has reviewed and updated the performance conditions and targets to ensure they reflect the priorities for the three-year performance period from 1 April 2016 to 31 March 2019. These are shown in Table 15.

Measures and targets have been chosen such that the annual bonus includes measures aimed at driving yearly improvements in customer

satisfaction, and service and environmental performance (the ODI Scorecard), while the long-term incentive plan is designed to reward long-term financial performance, with the Committee having the ability to withhold a proportion of the award if serviceability is not maintained or service quality becomes a reputational issue.

Further information on the ODI Scorecard is in Table 9, note 1.

Table 15: Performance measures and weightings for 2016 long-term incentive plan

Performance measure	Description	Weighting as % of base pay	
		Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Rate of return	Achievement of targeted average rate of return over the performance period.	75	37.5
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the performance period.	75	37.5

Executive Directors' service contracts

The following table shows the start date for each Executive Director:

	Start date as Executive Director
Scott Longhurst	18 November 2004
Chris Newsome	24 September 2004
Peter Simpson	18 November 2004
Jean Spencer	20 May 2004

External appointments

Scott Longhurst is a Non-Executive Director of Candover Investments plc. His annual remuneration in respect of this role is £35,000.

Chairman and Non-Executive Directors

Terms of appointment

Dates of letters of appointment and expiry of current terms for those who have served as Chairman and other Independent Non-Executive Directors during the year are:

	Date of first appointment	Date of expiry of current terms
Stephen Billingham¹	26 November 2014	No fixed term
Polly Courtice	1 April 2015	31 March 2018
Christopher Garnett²	1 December 2006	31 January 2016
Steve Good	1 April 2015	31 March 2018
John Hirst	1 April 2015	31 March 2018
Robert Napier²	1 February 2002	30 September 2015
John Watkinson²	12 May 2005	31 March 2016
Paul Whittaker	14 October 2013	13 October 2016

¹ Stephen Billingham was originally appointed as an Independent Non-Executive Director of the Company on 26 November 2014, on a three-year term ending on 25 November 2017. He accepted a new appointment with AWG as Group Chairman from 1 April 2015, under which he provides services to the Group, and also carries out the role of Chairman of AWS. The terms of this new appointment replace his original terms, and have no fixed end date, with a six-month notice period.

² Christopher Garnett, Robert Napier and John Watkinson stepped down from the Board during the year following the appointment of Polly Courtice, Steve Good and John Hirst as Independent Non-Executive Directors.

REMUNERATION REPORT

Remuneration

Table 16 provides a summary of key elements of remuneration for the Chairman and Non-Executive Directors for the year ended 31 March 2016 and any changes for the year ending 31 March 2017.

Table 16

Purpose and link to strategy	Operation	Maximum potential value as % of base fee	Performance metrics	Changes for 2016/17
Fees				
To attract high-calibre individuals to these roles, and reflect the level of responsibility and time commitment involved.	For the Chairman and Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size. Fees may include additional payments to Non-Executive Directors who chair Board committees, to reflect the significant additional responsibilities attached to these duties.	n/a	n/a	No changes are proposed for 2016/17.
Benefits				
	The Company covers the cost of travel between the Directors' home and office when carrying out duties. This includes payment of any tax due. Normal place of work is deemed to be the Company's head office in Huntingdon. Travel to any other location is reimbursed as normal business travel expenses.		Depending on the home location of the Director, these payments are all less than 6% of base fees.	

The Chairman and the Non-Executive Directors do not participate in any of the Company's incentive schemes or pension schemes. Sixty per cent of the Chairman's costs are charged to the Company. A hundred per cent of the Independent Non-Executive Directors' costs are charged to the Company.

Outcomes in 2015/16

Table 17: Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration AWS £				Total remuneration - other AWG companies £				Total remuneration all AWG £					
	2014/15		2015/16		2014/15		2015/16		2014/15		2015/16		2014/15	2015/16
	Fees	Benefits ¹	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Total	Total
Sir Adrian Montague	180,000	1,177	0	0	120,000	785	0	0	300,000	1,962	0	0	301,962	0
Stephen Billingham	17,532	0	0	0	0	0	300,000	1,317	17,532	0	300,000	1,317	17,532	301,317
Polly Courtice	0	0	45,000	217	0	0	0	0	0	0	45,000	217	0	45,217
Christopher Garnett ²	46,970	358	45,833	254	0	0	0	0	46,970	358	45,833	254	47,328	46,087
Steve Good	0	0	45,000	0	0	0	0	0	0	0	45,000	0	0	45,000
John Hirst	0	0	57,500	0	0	0	0	0	0	0	57,500	0	0	57,500
Robert Napier ³	113,580	571	14,021	834	30,000	0	0	0	143,580	571	14,021	834	144,151	14,855
John Watkinson ⁴	46,970	271	45,000	79	0	0	0	0	46,970	271	45,000	79	47,241	45,079
Paul Whittaker	46,970	0	55,000	0	0	0	0	0	46,970	0	55,000	0	46,970	55,000
Total Non-Executive Directors⁵	452,022	2,377	307,354	1,384	150,000	785	300,000	1,317	602,022	3,162	607,354	2,701	605,184	610,055

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

² Christopher Garnett stepped down on 31 December 2015. In accordance with his letter of appointment he was paid until 31 January 2016.

³ Robert Napier stepped down as an Independent Non-Executive Director of Anglian Water Services Limited on 23 July 2015. On 23 July 2015 he accepted an appointment as a Director of AWG group companies and membership of the AWG Audit Committee.

⁴ John Watkinson stepped down on 31 December 2015. In accordance with his letter of appointment he was paid until 31 March 2016.

⁵ Polly Courtice, Steve Good and John Hirst were appointed as Independent Non-Executive Directors on 1 April 2015.

REMUNERATION REPORT

Fees

The Board approved fee increases for John Hirst from £45,000 to £55,000 to reflect his additional responsibility in chairing the Audit Committee, and a further increase to £65,000 from 1 January 2016 when he was appointed Senior Independent Director, replacing Christopher Garnett.

There were no other changes in fees to Independent Non-Executive Directors during the year.

Payments to past directors

No payments were made to past directors during the year.

Payments for loss of office

No payments were made to directors for loss of office during the year.

Consideration by the Directors of matters relating to Directors' remuneration

The membership of the Remuneration Committee during the year is set out at the start of this Remuneration Report.

Remuneration matters relating to the 2015/16 performance year were discussed at Remuneration Committee meetings held on 21 May 2015, 22 July 2015, 25 November 2015, 26 January 2016 and 31 March 2016. The items discussed at these meetings are summarised below:

January/March/April

- Discussion of proposed design for the performance contract (company targets) for the new financial year
- Agreement of management philosophy in relation to nominations for the long-term incentive plan awards to be made in the forthcoming financial year
- Proposed approach to senior executive performance and pay review in relation to the forthcoming financial year.

May

- Approval of the performance contract outcome in respect of the financial year just concluded, being the year under review ('past year')
- Approval of vesting of the long-term incentive plan awards with a performance period ending in the past year
- Review of performance of the Group CEO and CFO for the past year
- Approval of bonus payments to AWS Executive Directors in relation to performance during the past year
- Approval of pay awards to Executive Directors for the forthcoming financial year
- Approval of personal objectives for Peter Simpson and Scott Longhurst for the forthcoming financial year
- Approval of the AWS performance contract for the forthcoming financial year
- Approval of the long-term incentive plan awards to AWS employees to be made at the start of the new financial year.

July

- Minor amendments to one LTIP performance condition and an adjustment to the LTIP award to a senior manager.

In addition to these activities, the Committee also undertook a review of external benchmark data to ensure the structure and quantum of remuneration packages for the CEO and CFO remained competitive and appropriate against the market. As a result of this review, no further changes were proposed.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 96. No material shortcomings in the operation of the Committee were highlighted. The Committee considered the outcome of the evaluation at its meeting on 31 March 2016 and some minor improvements to the operation of the Committee were suggested.

External advisors

During 2015/16, the Committee appointed the external remuneration consultants Kepler to provide advice and benchmarking data as part of a review of CEO and CFO remuneration packages.

Kepler has also provided benchmarking data to Group companies.

Remuneration policy in 2016/17

As explained in Table 2, no changes are proposed to remuneration policy for 2016/17. However, given the level of uncertainty and structural change affecting the water industry, and the potential for further changes to government policy on pensions, the Committee is mindful that remuneration policy will need to be kept under careful review to ensure it remains appropriate for the longer term.

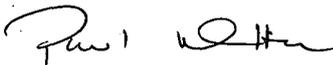
Statutory requirements

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

The report was approved by the Board on 27 May 2016 and signed on its behalf.

Paul Whittaker

Chairman of the Remuneration Committee
27 May 2016



DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the Company) for the year ended 31 March 2016.

Business review

The ultimate parent company of Anglian Water Services Limited is Anglian Water Group Limited, a company registered in Jersey.

Anglian Water Group Limited is owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors and 3i. The Company's ownership structure is detailed on page 16.

The information that fulfils the requirement of the Strategic Report, including a summary of the Group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on pages 1 to 84. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on pages 48 to 52.

Corporate Governance Statement

The Disclosure & Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 90 to 97 and is incorporated into this Directors' Report by reference.

Details of the corporate governance arrangements resulting from the securitisation of the Company in 2002 can be found on page 90 of the Corporate Governance Report, together with the disclosures that satisfy the requirements of paragraph 13 (2) (c) (d) (f) (h) and (i) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, resulting from the EU Takeover Directive (DTR 7.2.6R).

Financial instruments disclosures

Details are included on page 83 of the Strategic Report and in note 18 of the financial statements.

Principal activities

The Company provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The Company receives approximately 900 million litres of used water per day from 5.9 million people and businesses, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, the Company provides retail services to household customers within its region and non-household customers across the UK.

Results and dividends

The Group income statement on page 141 shows the Group's results and profit for the year. Details of dividends paid during the year and proposed dividends can be found on page 158.

Health and safety

Details are included on pages 57 to 59.

Directors

Current Directors of the Company are listed on pages 87 to 89 together with their biographical details. Details of Board changes that took place during the year are detailed on page 92.

Directors' indemnities

During the 2015/16 financial year and up until the date of the signing of the financial statements, the Company has maintained Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of Section 234 ((2)-(6)) of the Companies Act 2006.

Charitable and political donations

We continue to provide support to WaterAid – our nominated charity (which transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities) – and do not offer charitable donations or sponsorships to other charities. Part of the funds raised in 2015/16 directly supported the work of WaterAid in two countries, Nepal and Liberia, where we are proud to have close links to the work of the local WaterAid teams. During the year, the Company also donated £40,000 to WaterAid. In addition to this, the Company's ultimate shareholders also made a £50,000 donation to WaterAid, following the receipt of the Queen's Award for Enterprise by the Company.

With the support of the Company, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £624,984 for WaterAid (2015: £523,804) – the highest amount ever raised by the business.

No political donations were made during the year (2015: £nil).

Future developments

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

Research and development

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

Customers

The Company values the opportunity to engage with customers across its region. This engagement takes a number of forms including satisfaction surveys, focus groups, behavioural change campaigns and public roadshows. We will be using a variety of methods to engage with customers and develop an ongoing conversation with them throughout this AMP.

The Company's Business Plan for 2015–2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services. In total, the views of 50,000 customers have shaped our plan.

All customers were then invited to comment on the acceptability of the plan and a survey of 2,200 customers was conducted to provide representative results.

Over 90 per cent of those surveyed said they found the plan acceptable. The results of this survey were used to help refine the plan, which was then submitted to Ofwat in December 2013.

Since 2011, the independent Customer Engagement Forum (CEF) has been in place to advise and challenge the Company on how it has engaged with its customers and how customer views are reflected in its future plans. During 2015/16, the CEF has also monitored current performance and challenged areas where the Company has not met targets, or has significantly exceeded them. In particular, it has focused on the Company's suite of Outcome Delivery Incentives (ODIs), which are a set of performance measures relating to areas of the business most important to our customers. The CEF has members from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy.

Excellent customer service is a high priority and the Company recognises employees who provide excellent service to customers. The Board regularly reviews the results of a range of customer service surveys. These include the newly revised quarterly SIM survey conducted by Ofwat, which is itself an ODI.

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the Company. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. We produce a regular employee newspaper *Anglian Water News*, which is sent to employees at home. Phoncasts from senior managers and the Company's intranet are also widely used as sources of information.

DIRECTORS' REPORT

The Company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. We recognise three trade unions, with whom we meet regularly for collective bargaining and consultation purposes. We have an active network of health and safety committees at which senior managers meet with trades union representatives to consult on matters affecting health and safety at work. 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 suggestions for change.

The Company has a series of policies that both inform and guide all employees on the Company's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour. The Group has a whistleblowing policy, details of which can be found in the Audit Committee Report on page 99. The Company also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

The Company participates in the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The Company values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given.

Career development and promotion of disabled people are, as far as possible, identical to those of other employees.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 29 of the Group financial statements.

Going concern

The Directors believe, after due and careful enquiry, that the Company has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2016 financial statements.

Directors' disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act the following applies:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoppers LLP, are not able to stay in office as they will be appointed as internal auditors with effect from July 2016. New external auditors will be appointed during the 2016/17 financial year.

By order of the Board

Claire Russell
Company Secretary
27 May 2016



Registered Office:
Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire PE29 6XU
Registered in England and Wales No 2366656

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Integrated Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

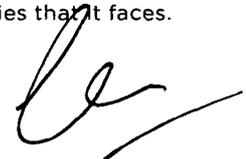
The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Who leads us and Board of Directors sections on pages 18-19 and 87-89 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Claire Russell
Company Secretary
27 May 2016



STATUTORY ACCOUNTS

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Group income statement

for the year ended 31 March 2016

Notes	2016			2015			
	Underlying results £m	Other items ¹ £m	Total £m	Underlying results £m	Other items ¹ £m	Total £m	
	Continuing operations						
	Revenue	1,185.4	-	1,185.4	1,244.3	-	1,244.3
	Other operating income	13.5	-	13.5	12.9	-	12.9
	Operating costs						
	Operating costs before depreciation and amortisation	(560.6)	-	(560.6)	(523.9)	-	(523.9)
	Depreciation and amortisation	(297.9)	-	(297.9)	(280.7)	-	(280.7)
	Fair value movements on energy hedges	-	(4.8)	(4.8)	-	(0.8)	(0.8)
5	Total operating costs	(858.5)	(4.8)	(863.3)	(804.6)	(0.8)	(805.4)
	Operating profit	340.4	(4.8)	335.6	452.6	(0.8)	451.8
	Finance income	3.6	192.8	196.4	4.2	192.3	196.5
	Finance costs	(254.9)	-	(254.9)	(274.8)	-	(274.8)
	Fair value losses on derivative financial instruments	-	(84.9)	(84.9)	-	(212.8)	(212.8)
6	Net finance costs	(251.3)	107.9	(143.4)	(270.6)	(20.5)	(291.1)
	Profit before tax from continuing operations	89.1	103.1	192.2	182.0	(21.3)	160.7
7	Tax			138.8			34.3
	Profit for the year			331.0			195.0

¹ Other items comprise fair value losses on derivative financial instruments and energy hedges of £89.7 million (2015: £213.6 million) and intra-group interest income of £192.8 million (2015: £192.3 million).

Notes 1 to 29 are an integral part of these consolidated financial statements.

Group statement of other comprehensive income

for the year ended 31 March 2016

Notes	2016 £m	2015 £m
Profit for the year	331.0	195.0
Other comprehensive income for the year:		
Items that will not be reclassified to profit or loss		
21 Actuarial gains/(losses) on retirement benefit obligations	38.5	(0.1)
7 Income tax on items that will not be reclassified	(8.7)	-
	29.8	(0.1)
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges	(23.2)	(75.5)
7 Income tax on items that may be reclassified	2.2	15.1
	(21.0)	(60.4)
Total comprehensive income for the year	339.8	134.5

Group and Company balance sheets

at 31 March 2016

Company number 02366656

Notes		Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
	Non-current assets				
11	Intangible assets	129.1	116.9	129.1	116.9
12	Property, plant and equipment	9,426.1	9,447.0	9,426.1	9,447.0
13	Investments	1,602.6	1,602.6	1,602.6	1,602.6
18	Derivative financial instruments	131.5	94.6	131.5	94.6
21	Retirement benefit surpluses	57.1	10.3	57.1	10.3
		11,346.4	11,271.4	11,346.4	11,271.4
	Current assets				
14	Inventories	9.0	9.0	9.0	9.0
15	Trade and other receivables	496.1	514.4	496.1	514.4
	Investments	267.3	110.0	267.3	110.0
	Cash and cash equivalents	151.7	647.5	150.4	646.3
18	Derivative financial instruments	7.3	35.0	7.3	35.0
		931.4	1,315.9	930.1	1,314.7
	Total assets	12,277.8	12,587.3	12,276.5	12,586.1
	Current liabilities				
16	Trade and other payables	(436.1)	(473.9)	(481.8)	(519.3)
	Current tax liabilities	(125.1)	(129.3)	(125.1)	(129.3)
17	Borrowings	(494.4)	(357.1)	(494.4)	(357.1)
18	Derivative financial instruments	(16.3)	(11.0)	(16.3)	(11.0)
19	Provisions	(3.1)	(1.4)	(3.1)	(1.4)
		(1,075.0)	(972.7)	(1,120.7)	(1,018.1)
	Net current (liabilities)/assets	(143.6)	343.2	(190.6)	296.6
	Non-current liabilities				
17	Borrowings	(5,758.2)	(6,049.6)	(5,758.2)	(6,049.6)
18	Derivative financial instruments	(873.4)	(867.1)	(873.4)	(867.1)
20	Deferred tax liabilities	(914.0)	(1,059.1)	(914.0)	(1,059.1)
21	Retirement benefit obligations	(45.0)	(48.7)	(45.0)	(48.7)
19	Provisions	(9.4)	(9.6)	(9.4)	(9.6)
16	Other non-current liabilities	(588.7)	(561.2)	(588.7)	(561.2)
		(8,188.7)	(8,595.3)	(8,188.7)	(8,595.3)
	Total liabilities	(9,263.7)	(9,568.0)	(9,309.4)	(9,613.4)
	Net assets	3,014.1	3,019.3	2,967.1	2,972.7
	Capital and reserves				
23	Called-up share capital	10.0	10.0	10.0	10.0
	Revaluation reserve	-	2,560.2	-	2,560.2
	Retained earnings	3,105.1	529.1	3,058.1	482.5
22	Hedging reserve	(101.0)	(80.0)	(101.0)	(80.0)
	Total equity	3,014.1	3,019.3	2,967.1	2,972.7

Notes 1 to 29 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 May 2016 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance and Non-Regulated Business




Group statement of changes in equity

for the year ended 31 March 2016

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
For the year ended 31 March 2016					
At 1 April 2015	10.0	2,560.2	529.1	(80.0)	3,019.3
Profit for the year	-	-	331.0	-	331.0
Other comprehensive income for the year	-	-	29.8	(21.0)	8.8
Total comprehensive income	-	-	360.8	(21.0)	339.8
Issue of bonus shares	2,560.2	(2,560.2)	-	-	-
Capital reduction	(2,560.2)	-	2,560.2	-	-
Dividends	-	-	(345.0)	-	(345.0)
At 31 March 2016	10.0	-	3,105.1	(101.0)	3,014.1

For the year ended 31 March 2015

At 1 April 2014	10.0	2,560.2	706.7	(19.6)	3,257.3
Profit for the year	-	-	195.0	-	195.0
Other comprehensive income for the year	-	-	(0.1)	(60.4)	(60.5)
Total comprehensive income	-	-	194.9	(60.4)	134.5
Dividends	-	-	(372.5)	-	(372.5)
At 31 March 2015	10.0	2,560.2	529.1	(80.0)	3,019.3

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the Group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

During the year Anglian Water Services Limited, a wholly owned subsidiary undertaking, undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue Anglian Water Services Limited completed a capital reduction exercise, creating £2,560.2 million of distributable reserves.

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 22).

Company statement of changes in equity

for the year ended 31 March 2016

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
For the year ended 31 March 2016					
At 1 April 2015	10.0	2,560.2	482.5	(80.0)	2,972.7
Profit for the year	-	-	330.6	-	330.6
Other comprehensive income for the year	-	-	29.8	(21.0)	8.8
Total comprehensive income	-	-	360.4	(21.0)	339.4
Issue of bonus shares	2,560.2	(2,560.2)	-	-	-
Capital reduction	(2,560.2)	-	2,560.2	-	-
Dividends	-	-	(345.0)	-	(345.0)
At 31 March 2016	10.0	-	3,058.1	(101.0)	2,967.1
For the year ended 31 March 2015					
At 1 April 2014	10.0	2,560.2	660.5	(19.6)	3,211.1
Profit for the year	-	-	194.6	-	194.6
Other comprehensive income for the year	-	-	(0.1)	(60.4)	(60.5)
Total comprehensive income	-	-	194.5	(60.4)	134.1
Dividends	-	-	(372.5)	-	(372.5)
At 31 March 2015	10.0	2,560.2	482.5	(80.0)	2,972.7

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the Group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

During the year Anglian Water Services Limited, a wholly owned subsidiary undertaking, undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue Anglian Water Services Limited completed a capital reduction exercise, creating £2,560.2 million of distributable reserves.

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 22).

Group and Company cash flow statements

for the year ended 31 March 2016

Notes		Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
	Cash flows from:				
	Operating activities				
(a)	Cash generated from operations	644.4	708.1	644.4	708.1
	Income tax (paid)/received	(16.9)	0.5	(16.9)	0.5
	Net cash flows from operating activities	627.5	708.6	627.5	708.6
	Investing activities				
	Purchase of property, plant and equipment	(260.2)	(341.3)	(260.2)	(341.3)
	Purchase of intangible assets	(40.0)	(51.6)	(40.0)	(51.6)
	Grants and contributions received	30.8	32.8	30.8	32.8
	Proceeds from sale of property, plant and equipment	3.9	1.8	3.9	1.8
	Net cash used in investing activities	(265.5)	(358.3)	(265.5)	(358.3)
	Financing activities				
	Interest received	196.9	196.4	196.8	196.4
	Interest paid	(218.2)	(215.7)	(218.2)	(215.7)
	Issue costs paid	(2.2)	(2.1)	(2.2)	(2.1)
	Interest element of finance lease rental payments	(1.5)	(1.6)	(1.5)	(1.6)
	Increase in amounts borrowed	-	185.0	-	185.0
	Repayment of amounts borrowed	(325.8)	(60.8)	(325.8)	(60.8)
	Capital element of finance lease rental payments	(4.7)	(8.9)	(4.7)	(8.9)
	Increase in short-term bank deposits	(157.3)	(42.1)	(157.3)	(42.1)
	Dividends paid	(345.0)	(372.5)	(345.0)	(372.5)
	Net cash used in financing activities	(857.8)	(322.3)	(857.9)	(322.3)
	Net (decrease)/increase in cash and cash equivalents	(495.8)	28.0	(495.9)	28.0
	Cash and cash equivalents at the beginning of the year	647.5	619.5	646.3	618.3
(b)	Cash and cash equivalents at 31 March	151.7	647.5	150.4	646.3

The notes (a) to (b) form part of this cash flow statement.

Notes to the Group and Company cash flow statements

for the year ended 31 March 2016

(a) Cash generated from operations

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit	335.6	451.8	335.6	451.8
Adjustments for:				
Amortisation of deferred grants and contributions	(13.5)	(12.9)	(13.5)	(12.9)
Depreciation and amortisation	297.9	280.7	297.9	280.7
Profit on sale of property, plant and equipment	(3.5)	(0.7)	(3.5)	(0.7)
Fair value losses on energy hedges	4.8	0.8	4.8	0.8
Difference between pension charge and cash contributions	(13.0)	(24.5)	(13.0)	(24.5)
Net movement in provisions	(0.2)	(0.2)	(0.2)	(0.2)
	272.5	243.2	272.5	243.2
Working capital:				
Decrease in inventories	-	1.6	-	1.6
Decrease/(increase) in trade and other receivables	17.8	(34.4)	17.8	(34.4)
Increase in trade and other payables	18.5	45.9	18.5	45.9
	36.3	13.1	36.3	13.1
Cash generated from operations	644.4	708.1	644.4	708.1

All of the above cash flows related to continuing operations.

(b) Analysis of net debt

	Cash and cash equivalents £m	Financial Investments £m	Borrowings £m	Derivative financial instruments ¹ £m	Total £m
Group					
At 1 April 2015	647.5	110.0	(6,406.7)	(727.1)	(6,376.3)
Cash flows	(495.8)	157.3	293.2	64.3	19.0
Interest	-	-	3.0	(23.7)	(20.7)
Issue costs relating to new borrowings	-	-	2.2	-	2.2
Amortisation of issue costs	-	-	(2.5)	-	(2.5)
Indexation of borrowings and RPI swaps	-	-	(33.5)	(10.9)	(44.4)
Fair value gains and losses	-	-	(53.7)	(8.2)	(61.9)
Exchange movements	-	-	(54.6)	-	(54.6)
At 31 March 2016	151.7	267.3	(6,252.6)	(705.6)	(6,539.2)
Net debt at 31 March 2016 comprises:					
Non-current assets	-	-	-	131.5	131.5
Current assets	151.7	267.3	-	7.3	426.3
Current liabilities	-	-	(494.4)	(9.1)	(503.5)
Non-current liabilities	-	-	(5,758.2)	(835.3)	(6,593.5)
Net debt	151.7	267.3	(6,252.6)	(705.6)	(6,539.2)

¹ Derivative financial instruments excludes the fair value of energy derivatives of £45.3 million (2015: £21.4 million) as these are not classified as part of net debt.

Current asset investments above comprise £267.3 million (2015: £110.0 million) of short-term deposits with an original maturity of more than three months.

Notes to the Group and Company cash flow statements continued

for the year ended 31 March 2016

(b) Analysis of net debt continued

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments ¹ £m	Total £m
Company					
At 1 April 2015	646.3	110.0	(6,406.7)	(727.1)	(6,377.5)
Cash flows	(495.9)	157.3	293.2	64.3	18.9
Interest	-	-	3.0	(23.7)	(20.7)
Issue costs relating to new borrowings	-	-	2.2	-	2.2
Amortisation of issue costs	-	-	(2.5)	-	(2.5)
Indexation of borrowings and RPI swaps	-	-	(33.5)	(10.9)	(44.4)
Fair value gains and losses	-	-	(53.7)	(8.2)	(61.9)
Exchange movements	-	-	(54.6)	-	(54.6)
At 31 March 2016	150.4	267.3	(6,252.6)	(705.6)	(6,540.5)
Net debt at 31 March 2016 comprises:					
Non-current assets	-	-	-	131.5	131.5
Current assets	150.4	267.3	-	7.3	425.0
Current liabilities	-	-	(494.4)	(9.1)	(503.5)
Non-current liabilities	-	-	(5,758.2)	(835.3)	(6,593.5)
Net debt	150.4	267.3	(6,252.6)	(705.6)	(6,540.5)

¹ Derivative financial instruments excludes the fair value of energy derivatives of £45.3 million (2015: £21.4 million) as these are not classified as part of net debt.

Current asset investments above comprise £267.3 million (2015: £110.0 million) of short-term deposits with an original maturity of more than three months.

Notes to the Group financial statements

for the year ended 31 March 2016

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have all 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 (IFRS), and IFRS Interpretations Committee interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Underlying profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives, which introduces volatility into the accounts, which is not representative of the underlying operational performance of the business. In order to show the position of the Anglian Water Services Financing Group (AWSF Group) the intra-group interest receivable from Anglian Water Services Holdings Limited has also been excluded. The AWSF Group comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

(b) Basis of preparation

The Anglian Water Services Group (the Group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the Company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Intra-group sales and profit are eliminated fully on consolidation.

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

(c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement.

(d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(e) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.
- (ii) Interest income – recognised on a time-proportion basis using the effective interest method.
- (iii) Dividend income – recognised when the right to receive payment is established.

(f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised under equipment or intangible assets and is written off over the expected useful life of the asset.

(g) Exceptional items

Exceptional items are one-off items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

(h) Taxation

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantively enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Group financial statements continued

1 Accounting policies continued

(i) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the Company has a constructive or legal commitment to pay the dividend.

(j) Intangible assets

Intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years.

(k) Property, plant and equipment

Property, plant and equipment comprises:

- Land and buildings – comprising land and non-operational buildings
- Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls
- Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage where not classed as infrastructure along with associated fixed plant
- Vehicles and mobile plant and equipment
- Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Items of property, plant and equipment that are transferred to the Group from customers or developers are initially recognised at fair value. The corresponding credit is recorded as deferred income and released to other income over the expected useful lives of the related assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight-line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30–60 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant (including meters)	12–40 years
Vehicles and mobile plant and equipment	3–10 years

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) Grants and contributions

Grants and contributions comprise government grants, infrastructure and connection charges, sewer adoption charges, deficit contributions for requisitioned water and wastewater infrastructure under the Water Acts, non-domestic deficit contributions, other capital and revenue contributions, and contributions for infrastructure diversions.

Capital grants and contributions are credited to a deferral account within creditors and are released to other income evenly over the expected useful life of the related assets.

Deficit contributions are also credited to a deferral account within creditors, and are recognised as other income in line with the expected expenditure they are intended to compensate.

Contributions for diversion are allocated between compensation for the loss of the asset given up, treated in accordance with the asset disposal policy, and capital contribution towards the cost of the replacement asset according to the nature of the diversion.

(m) Leased assets

Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments, with the corresponding rental obligations, net of finance charges, shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the interest element being charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rental costs arising under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

For the purpose of lease classification, the land and buildings elements of a lease are considered separately.

(n) Investments

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as held for trading or available-for-sale are measured at fair value, with gains or losses recognised in income or equity respectively. When an available-for-sale investment is disposed of, or impaired, the gain or loss previously recognised in equity is taken to the income statement.

Other investments are classified as held to maturity when the Group has the positive intention and ability to hold to maturity and there is a set maturity date. Investments held for an undefined period are excluded from this classification. Such investments, and those held to maturity, are subsequently measured at amortised cost using the effective interest method, with any gains or losses being recognised in the income statement.

(o) Inventories

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

(p) Bad debts

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile.

(q) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(r) Borrowings

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

(s) Derivative financial instruments

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

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

At the inception of the hedging transaction the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'Fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge no longer meets the criteria for hedge accounting, the hedged item is not adjusted for any subsequent movements in the hedged risk. The amount that the hedged item was adjusted by will be amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments, principally index-linked swaps and swaptions, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

Notes to the Group financial statements continued

1 Accounting policies continued

(t) Provisions

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

(u) Pensions

(i) *Defined benefit schemes*

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

(ii) *Defined contribution schemes*

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

(v) New standards, amendments and interpretations not yet adopted

At the date of approval of these financial statements the following standards were in issue but not yet effective:

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted (subject to EU endorsement). The Group is currently assessing the impact of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted (subject to EU endorsement). The Group is currently assessing the impact of IFRS 15.

IFRS 16 'Leases' will replace the current guidance in IAS 17 for annual periods beginning on or after 1 January 2019 (subject to EU endorsement). Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Group is currently assessing the impact of IFRS 16 on its leases of land and buildings; the impact on leases of other assets is not expected to be material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Key assumptions and significant judgements

The Group uses estimates and makes judgements in the preparation of its financial statements. The areas where the most judgement is required are highlighted below.

(i) Measured income accrual

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the period end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.1 million).

(ii) Bad debts

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to judgement (see note 15 for details of the doubtful debts provision).

(iii) Complex supplier arrangements

Anglian Water has collaborative incentivised arrangements in place for all of its capital delivery routes, and elements of its operating costs. Each partner has a separate framework agreement, based on four delivery routes. Within each route, the partners and Anglian Water are rewarded by an element of return coming from outperformance of target costs. The incentive arrangements are operated on a programme pool basis, with gain-share or pain-share arising on completion of each scheme. Payments are made from the relevant programme pool on an annual basis, after being moderated by partner performance.

(iv) Pensions

The Group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under IAS 19 'Employee Benefits' the Group has recognised an actuarial gain of £38.5 million (2015: loss of £0.1 million). The main assumptions and associated sensitivities are set out in note 21 of the financial statements.

(v) Property, plant and equipment

The property, plant and equipment used in the Group is primarily the infrastructure and operational assets of the regulated water business. Operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

(vi) Financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The Group uses its judgement to select the most appropriate valuation method for each instrument to estimate expected future cash flows, and apply discount rates that reflect counterparty credit risk. The valuation techniques are described in detail in note 18.

(vii) Taxation

The Group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities. See notes 7 and 20 for further analysis of the Group's tax charge.

3 Segmental information

The Directors believe that the whole of the Group's activities constitute a single class of business.

The Group's revenue is wholly generated from within the United Kingdom.

4 Other operating income

Other operating income comprises the amortisation of grants and contributions.

Notes to the Group financial statements continued

5 Operating costs

	2016 £m	2015 £m
Raw materials and consumables	17.1	17.8
Staff costs (see note 8)	195.5	180.8
Charge for bad and doubtful debts	31.9	33.1
Operating lease rentals		
Properties	2.6	2.8
Plant and equipment	0.2	0.3
Research and development expenditure	2.4	0.9
Contribution to the Anglian Water Assistance Fund	0.7	0.4
Other operating costs	369.5	338.6
Own work capitalised	(55.8)	(50.1)
Profit on sale of property, plant and equipment ¹	(3.5)	(0.7)
Operating costs before depreciation and amortisation	560.6	523.9
Depreciation of property, plant and equipment	268.2	256.2
Amortisation of intangible assets	29.7	24.5
Depreciation and amortisation	297.9	280.7
Fair value movements on energy hedges	4.8	0.8
Operating costs	863.3	805.4

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

During the year the Group obtained the following services from the Company's auditors:

	2016 £m	2015 £m
Fees payable to the Company's auditors for the audit of the Company and the consolidated financial statements	0.2	0.2
Fees payable to the Company's auditors for other services		
The audit of the Company's subsidiaries	-	-
Audit-related assurance services	-	0.1
Other taxation advisory services	0.1	-
Other assurance services	0.1	-
Other non-audit services	-	0.2
	0.4	0.5

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat, and review of the Group's half-year results. Other assurance services of £61,000 (2015: £34,200) relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to system improvements, pensions, IFRS advice and risk management.

6 Net finance costs

	2016 £m	2015 £m
Finance income		
Interest income on short-term bank deposits	3.6	4.2
Other interest receivable ¹	192.8	192.3
	196.4	196.5
Finance costs		
Interest payable on other loans including financing expenses	(216.1)	(215.6)
Indexation	(44.4)	(71.8)
Amortisation of issue costs	(2.5)	(1.8)
Interest payable on finance leases	(1.4)	(1.6)
Unwinding of discount on provisions	(0.4)	(0.5)
Defined benefit pension scheme interest charge	(1.0)	(2.1)
Total finance costs	(265.8)	(293.4)
Less: amounts capitalised on qualifying assets	10.9	18.6
	(254.9)	(274.8)
Fair value (losses)/gains on derivative financial instruments		
Hedge ineffectiveness on cash flow hedges	(1.3)	(0.6)
Hedge ineffectiveness on fair value hedges	(4.1)	1.8
Amortisation of adjustment to debt in fair value hedge	0.1	-
Restructuring costs on derivatives	-	(4.8)
Derivative financial instruments not designated as hedges	(77.3)	(209.2)
Transfer from hedging reserve arising from discontinuation of cash flow hedges	(2.3)	-
	(84.9)	(212.8)
Net finance costs	(143.4)	(291.1)

¹ Other interest receivable comprises intra-group interest income of £192.8 million (2015: £192.3 million).

Notes to the Group financial statements continued

7 Taxation

	2016 £m	2015 £m
Current tax:		
In respect of the current period	20.5	25.5
Adjustments in respect of prior periods	(7.7)	(12.9)
Total current tax charge	12.8	12.6
Deferred tax:		
Origination and reversal of temporary differences	(16.3)	(27.6)
Adjustments in respect of prior periods	(12.4)	(19.3)
Reduction in corporation tax rate	(122.9)	-
Total deferred tax credit	(151.6)	(46.9)
Total tax credit on profit on continuing operations	(138.8)	(34.3)

The current tax adjustment in respect of previous periods relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of previous periods, for both 2016 and 2015, relate to adjustments to prior year capital allowance claims.

The reduction in corporation tax rate reflects the change in the UK corporation tax rate from 20 per cent to 19 per cent that is effective from 1 April 2017, and to 18 per cent which is effective from 1 April 2020, resulting in all relevant deferred tax balances being re-measured.

A further change to the UK corporation tax rate has been announced which proposes to reduce the rate by a further 1 per cent to 17 per cent from 1 April 2020. The Finance Act which includes this change had not been substantively enacted at the balance sheet date and therefore the rate change has not been recognised in these financial statements. If this change had been enacted before the balance sheet date, the impact on the financial statements for the year ended 31 March 2016 would have been a further reduction in the deferred tax liability and a corresponding credit to the income statement of approximately £60 million.

The tax credit on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 20 per cent (2015: 21 per cent) to the profit before tax from continuing operations as follows:

	2016 £m	2015 £m
Profit before tax from continuing operations	192.2	160.7
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 20 per cent (2015: 21 per cent)	38.4	33.7
Effects of:		
Items not deductible for tax purposes	3.2	4.7
Items not taxable	(0.7)	(0.1)
Group relief utilised	(38.6)	(40.4)
Reduction in corporation tax rate	(122.9)	-
Different UK tax rates on some earnings	1.9	-
Adjustments in respect of prior periods	(20.1)	(32.2)
Tax credit for the year	(138.8)	(34.3)

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

	2016 £m	2015 £m
Deferred tax:		
Defined benefit pension schemes	6.9	-
Cash flow hedges	(4.2)	(15.1)
Reduction in corporation tax rate – pensions	1.8	-
Reduction in corporation tax rate – cash flow hedges	2.0	-
Total tax charge/(credit) recognised in other comprehensive income	6.5	(15.1)

8 Employee information and Directors' emoluments

(a) Employee information	2016 £m	2015 £m
Staff costs for the Group		
Wages and salaries	164.1	152.0
Social security costs	15.3	14.2
Pension costs - defined contribution (see note 21)	7.2	6.3
Pension costs - defined benefit (see note 21)	8.9	8.3
	195.5	180.8

Staff costs for the year ended 31 March 2016 include £48.9 million (2015: £48.6 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors):

	2016	2015
Water Services	691	645
Water Recycling Services	1,448	1,611
Customer Services	784	798
Asset Management and Other	1,509	1,134
	4,432	4,188

(b) Directors' emoluments	2016 £'000	2015 £'000
Aggregate emoluments	2,838	2,240
Pension costs - defined contribution	-	-
Benefits received under long-term incentive plans	717	650

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2015: one Director) under a defined benefit pension scheme. Retirement benefits are accruing to four Directors (2015: four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited group undertakings.

(c) Highest paid Director

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £3,000 (2015: £3,000).

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on pages 104 to 135.

	2016 £'000	2015 £'000
Aggregate highest paid Director's emoluments and amounts received under long-term incentive schemes	1,219	1,051
Accrued defined benefit at year end	56	64

9 Profit of the parent company

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the Company, is £330.6 million (2015: £194.6 million).

Notes to the Group financial statements continued

10 Dividends

	2016 £m	2015 £m
Paid by the Group:		
Previous year final dividend	100.0	111.0
Current year interim dividend	52.2	69.2
Dividend paid by the Company and retained within the Anglian Water Services Financing Group	192.3	191.8
Dividend committed to be paid by the Company and retained within the Anglian Water Services Financing Group	0.5	0.5
	345.0	372.5

A dividend of £192.8 million (2015: £192.3 million) was paid/committed to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the Company on the inter-company loan of £1,602.6 million (2015: £1,602.6 million). The prior year dividend committed of £0.5 million was paid in April 2015.

The Directors have proposed a final dividend for the year ended 31 March 2016 of £10.0 per share, which is a total of £100.0 million. This distribution has not been accounted for within the 2016 financial statements as it was proposed and approved after the year end.

11 Intangible assets

	Group and Company		
	Computer software £m	Internally generated other £m	Total £m
Cost			
At 1 April 2014	303.4	88.9	392.3
Additions	37.2	18.6	55.8
At 31 March 2015	340.6	107.5	448.1
Additions	24.7	17.2	41.9
At 31 March 2016	365.3	124.7	490.0
Accumulated amortisation			
At 1 April 2014	(242.4)	(64.3)	(306.7)
Charge for the year	(16.1)	(8.4)	(24.5)
At 31 March 2015	(258.5)	(72.7)	(331.2)
Charge for the year	(18.5)	(11.2)	(29.7)
At 31 March 2016	(277.0)	(83.9)	(360.9)
Net book amount			
At 31 March 2016	88.3	40.8	129.1
At 31 March 2015	82.1	34.8	116.9

Internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £1.8 million (2015: £4.2 million) of interest that has been capitalised on qualifying assets.

Included with intangible assets above are assets under construction of £19.8 million (2015: £18.0 million) which are not yet subject to amortisation.

12 Property, plant and equipment

	Group and Company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	
Cost						
At 1 April 2014	43.4	6,206.7	5,121.7	755.8	437.2	12,564.8
Additions	-	-	-	-	370.7	370.7
Transfers on commissioning	1.0	148.2	240.2	49.9	(439.3)	-
Disposals	(0.3)	-	(2.2)	(9.7)	-	(12.2)
At 31 March 2015	44.1	6,354.9	5,359.7	796.0	368.6	12,923.3
Additions	-	-	-	-	247.6	247.6
Transfers on commissioning	2.4	110.1	237.9	50.7	(401.1)	-
Disposals	(0.2)	-	(0.2)	(11.8)	-	(12.2)
At 31 March 2016	46.3	6,465.0	5,597.4	834.9	215.1	13,158.7
Accumulated depreciation						
At 1 April 2014	(6.0)	(458.7)	(2,251.9)	(514.8)	-	(3,231.4)
Charge for the year	(0.4)	(51.6)	(162.6)	(41.6)	-	(256.2)
Disposals	-	-	1.9	9.4	-	11.3
At 31 March 2015	(6.4)	(510.3)	(2,412.6)	(547.0)	-	(3,476.3)
Charge for the year	(0.4)	(52.5)	(170.6)	(44.7)	-	(268.2)
Disposals	0.3	-	-	11.6	-	11.9
At 31 March 2016	(6.5)	(562.8)	(2,583.2)	(580.1)	-	(3,732.6)
Net book amount						
At 31 March 2016	39.8	5,902.2	3,014.2	254.8	215.1	9,426.1
At 31 March 2015	37.7	5,844.6	2,947.1	249.0	368.6	9,447.0

Property, plant and equipment at 31 March 2016 includes land of £27.2 million (2015: £25.7 million) which is not subject to depreciation. The Group's interests in land and buildings are almost entirely freehold.

Included within additions above is £9.1 million (2015: £14.4 million) of interest that has been capitalised on qualifying assets.

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases, the majority of which is included in operational assets:

	2016 £m	2015 £m
Net book amount at 31 March	51.6	54.4

Notes to the Group financial statements continued

13 Investments

	Group and Company		
	Loan to parent company £m	Shares in subsidiary undertakings £m	Total £m
Cost			
At 1 April 2015 and at 31 March 2016	1,602.6	-	1,602.6

The loan of £1,602.6 million (2015: £1,602.6 million), made by the Company to Anglian Water Services Holdings Limited, is repayable on the later of 30 July 2038 and another date being the next interest payment date following a date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Financing Plc. Interest on the loan is calculated at 12 per cent per annum.

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

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. It is 100 per cent owned and is registered, incorporated and operating in the UK at 31 March 2016.

14 Inventories

	Group and Company	
	2016 £m	2015 £m
Raw materials and consumables	9.0	9.0

15 Trade and other receivables

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade receivables	402.2	420.7	402.2	420.7
Provision for impairment	(197.5)	(197.0)	(197.5)	(197.0)
Net trade receivables	204.7	223.7	204.7	223.7
Amounts owed by other Anglian Water Group Limited group undertakings	0.8	2.0	0.8	2.0
Other amounts receivable	12.4	16.4	12.4	16.4
Prepayments and accrued income	278.2	272.3	278.2	272.3
	496.1	514.4	496.1	514.4

Prepayments and accrued income as at 31 March 2016 includes water and sewerage income not yet billed of £268.7 million (2015: £262.3 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. Concentrations of credit risk with respect to trade receivables are limited due to the Anglian Water Services customer base consisting of a large number of unrelated households and businesses. 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.

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

	Group and Company	
	2016 £m	2015 £m
Provision at the beginning of the year	197.0	190.4
Charge for bad and doubtful debts	31.9	33.1
Amounts written off during the year	(31.4)	(26.5)
At 31 March	197.5	197.0

15 Trade and other receivables continued

Included in trade receivables are balances with a carrying amount of £133.5 million (2015: £142.7 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances.

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	Group and Company	
	2016 £m	2015 £m
Within one year	95.2	103.7
Between one and two years	19.2	19.7
Between two and three years	9.4	9.4
Between three and four years	3.9	4.3
After four years	5.8	5.6
	133.5	142.7

At 31 March 2016 and 31 March 2015, the Group had no trade receivables that were individually impaired.

16 Trade and other payables

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Current				
Trade payables	91.1	145.0	91.2	145.0
Amounts owed to other Anglian Water Group Limited group undertakings	1.2	0.6	46.9	67.1
Receipts in advance	266.1	251.3	266.1	251.3
Other taxes and social security	4.0	3.7	4.0	3.7
Accruals and deferred income	60.0	60.5	59.9	39.4
Deferred grants and contributions	13.7	12.8	13.7	12.8
	436.1	473.9	481.8	519.3
Non-current				
Other payables	145.1	145.1	145.1	145.1
Deferred grants and contributions	443.6	416.1	443.6	416.1
	588.7	561.2	588.7	561.2

Receipts in advance includes £238.5 million (2015: £224.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

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

Notes to the Group financial statements continued

17 Loans and other borrowings

	Notes	Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
£250 million 5.837% fixed rate 2022	d f	258.0	257.8	258.0	257.8
£200 million 6.875% fixed rate 2023	d f	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	d f	202.7	202.7	202.7	202.7
£246 million 6.293% fixed rate 2030	d f	254.4	254.3	254.4	254.3
£250 million 5.25% fixed rate 2015		-	261.8	-	261.8
£150 million 5.5% fixed rate 2017/2040 ¹	b d e f	158.2	160.5	158.2	160.5
£150 million 4.125% index-linked 2020	c d f	236.4	234.0	236.4	234.0
£75 million 3.666% index-linked 2024	c d f	112.1	110.9	112.1	110.9
£200 million 3.07% index-linked 2032	c d f	296.8	293.6	296.8	293.6
£60 million 3.07% index-linked 2032	c d f	90.2	89.3	90.2	89.3
Finance leases	b d f g	38.7	42.9	38.7	42.9
£402 million 2.4% index-linked 2035	c d f	556.5	550.6	556.5	550.6
£50 million 1.7% index-linked 2046	c d f	66.7	66.1	66.7	66.1
£50 million 1.7% index-linked 2046	c d f	67.0	66.1	67.0	66.1
£40 million 1.7146% indexation bond 2056	c d f	53.7	53.2	53.7	53.2
£50 million 1.6777% indexation bond 2056	c d f	67.2	66.5	67.2	66.5
£60 million 1.7903% indexation bond 2049	c d f	80.6	79.8	80.6	79.8
£100 million 1.3784% indexation bond 2057	c d f	134.1	132.4	134.1	132.4
£50 million 1.3825% indexation bond 2056	c d f	67.0	66.1	67.0	66.1
£100 million Class A wrapped floating rate bonds	d f	100.1	100.0	100.1	100.0
£75 million 1.449% indexation bond 2062	c d f	96.4	94.7	96.4	94.7
£50 million 1.52% indexation bond 2055	c d f	64.1	63.0	64.1	63.0
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	102.1	87.2	102.1	87.2
£110 million Class A unwrapped floating rate bonds 2043	d f	110.1	110.1	110.1	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	a b d f	33.9	29.7	33.9	29.7
€500 million 6.25% fixed rate bond 2016	a d f g	415.1	379.0	415.1	379.0
£25 million 6.875% private placements 2034	d f	25.0	24.9	25.0	24.9
EIB £50 million 1.626% index-linked term facility 2019	c d f	61.2	60.5	61.2	60.5
EIB £50 million 1.3% index-linked term facility 2020	c f	60.3	59.6	60.3	59.6
£130 million 2.262% indexation bond 2045	c d f	153.0	151.6	153.0	151.6
US\$160 million 4.52% private placements 2021	a b d f	125.7	120.7	125.7	120.7
US\$410 million 5.18% private placements 2021	a b d f	289.5	284.4	289.5	284.4
EIB £75 million 0.53% index-linked term facility 2027 ²	c d f	82.0	81.0	82.0	81.0
EIB £75 million 0.79% index-linked term facility 2027 ²	c d f	82.0	81.0	82.0	81.0
£250 million 4.5% fixed rate 2027	d f	251.6	251.4	251.6	251.4
£15 million 1.37% index-linked private placements 2022	c d f	16.0	15.8	16.0	15.8
£50 million 2.05% index-linked private placements 2033	c d f	53.7	53.1	53.7	53.1
£25.5 million 4.195% private placements 2017	d f	26.0	25.9	26.0	25.9
£31.9 million 3.983% private placements 2022	d f	32.4	32.3	32.4	32.3
£73.3 million 4.394% private placements 2028	d f	74.7	74.7	74.7	74.7
£22.3 million 3.983% private placements 2022	d f	22.6	22.6	22.6	22.6
US\$47 million 5% private placements 2022	a b d f	33.4	32.3	33.4	32.3
EIB £150 million 0% index-linked term facility 2028 ³	c d f	159.1	157.3	159.1	157.3
£200 million Class B 4.5% fixed rate 2026	b d f	207.1	204.6	207.1	204.6
£35 million 1.141% index-linked bond 2042	c d f	36.7	36.3	36.7	36.3
US\$170 million 3.84% private placements 2023	a b d f	130.3	123.1	130.3	123.1
£93 million 3.537% private placements 2023	d f	94.1	94.0	94.1	94.0
US\$160 million 4.99% private placements 2023	a b d f	112.6	109.0	112.6	109.0
EIB £65 million 0.41% index-linked term facility 2029 ⁴	c d f	66.9	66.0	66.9	66.0
EIB Tranche 2 £125 million 0.1% 2029 ⁵	c d f	127.4	125.8	127.4	125.8
EIB Tranche 3 £60 million 0.01% 2030 ⁵	c d f	60.8	60.1	60.8	60.1
RCF £500 million	d f	(2.2)	(2.0)	(2.2)	(2.0)
RCF £100 million bilaterals	d f	(0.3)	-	(0.3)	-
US\$150 million 3.29% private placements 2026 ⁶	a b d f	1.1	-	1.1	-
£55 million 2.93% fixed rate private placements 2025 ⁶	b d f	(0.3)	-	(0.3)	-
£20 million 2.93% fixed rate private placements 2025 ⁶	b d f	(0.1)	-	(0.1)	-
£35 million floating rate private placements 2031 ⁶	d f	(0.2)	-	(0.2)	-
Total loans and other borrowings		6,252.6	6,406.7	6,252.6	6,406.7
Included in:					
Current liabilities		494.4	357.1	494.4	357.1
Non-current liabilities		5,758.2	6,049.6	5,758.2	6,049.6

1 The coupon for this instrument will increase to floating rate three month LIBOR plus 3.5 per cent effective October 2017. The bond contains an issuer call option whereby the bond can be redeemed on 10 October 2017 and on any interest payment date from 10 January 2018 for 100 per cent of the nominal amount of the bond.

2 These instruments are amortising from 2017 until the date of maturity shown.

3 This instrument is amortising from 2018 until the date of maturity shown.

4 This instrument is amortising from 2019 until the date of maturity shown.

5 These instruments are amortising from 2020 until the date of maturity shown.

6 The proceeds of these instruments were not received until 27 April 2016.

- (a) The Group has entered into swap agreements to hedge the risk of currency fluctuations in relation to the US Dollar, Euro and Japanese Yen borrowings.
- (b) The Group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the Group's hedging policy.
- (c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index. The increase in the capital value of index-linked loans during the year of £33.5 million (2015: £54.9 million) has been taken to the income statement as part of interest payable.
- (d) These loans are shown net of issue costs of £29.4 million (2015: £29.7 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.
- (e) Legal maturity of these instruments is the second of the two years quoted. Coupon 'step-up' is in the first of the years quoted in accordance with the pricing terms agreed at issue.
- (f) A security agreement, dated 30 July 2002, was made between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) under which a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2016 this charge applies to £6,252.6 million (2015: £6,406.7 million) of the debt listed above.
- (g) Amounts are repayable wholly or partly within one year.

Notes to the Group financial statements continued

18 Financial instruments

Financial assets by category	Group				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to- maturity investments £m	
At 31 March 2016					
Investments					
Current	-	-	-	267.3	267.3
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	151.7	-	151.7
Trade and other receivables					
Current (excluding prepayments)	-	-	486.9	-	486.9
Derivative financial instruments					
Current	1.5	5.8	-	-	7.3
Non-current	9.1	122.4	-	-	131.5
	10.6	128.2	2,241.2	267.3	2,647.3
At 31 March 2015					
Investments					
Current	-	-	-	110.0	110.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	647.5	-	647.5
Trade and other receivables					
Current (excluding prepayments)	-	-	505.3	-	505.3
Derivative financial instruments					
Current	0.1	34.9	-	-	35.0
Non-current	-	94.6	-	-	94.6
	0.1	129.5	2,755.4	110.0	2,995.0

18 Financial instruments continued

	Company				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held-to- maturity investments £m	
Financial assets by category continued					
At 31 March 2016					
Investments					
Current	-	-	-	267.3	267.3
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	150.4	-	150.4
Trade and other receivables					
Current (excluding prepayments)	-	-	486.9	-	486.9
Derivative financial instruments					
Current	1.5	5.8	-	-	7.3
Non-current	9.1	122.4	-	-	131.5
	10.6	128.2	2,239.9	267.3	2,646.0
At 31 March 2015					
Investments					
Current	-	-	-	110.0	110.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	646.3	-	646.3
Trade and other receivables					
Current (excluding prepayments)	-	-	505.3	-	505.3
Derivative financial instruments					
Current	0.1	34.9	-	-	35.0
Non-current	-	94.6	-	-	94.6
	0.1	129.5	2,754.2	110.0	2,993.8

Notes to the Group financial statements continued

18 Financial instruments continued

Financial liabilities by category	Group			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
At 31 March 2016				
Borrowings				
Current	-	-	494.4	494.4
Non-current	-	-	5,758.2	5,758.2
Trade and other payables				
Current	-	-	156.3	156.3
Derivative financial instruments				
Current	15.2	1.1	-	16.3
Non-current	745.8	127.6	-	873.4
	761.0	128.7	6,408.9	7,298.6
At 31 March 2015				
Borrowings				
Current	-	-	357.1	357.1
Non-current	-	-	6,049.6	6,049.6
Trade and other payables				
Current	-	-	209.8	209.8
Derivative financial instruments				
Current	10.0	1.0	-	11.0
Non-current	739.4	127.7	-	867.1
	749.4	128.7	6,616.5	7,494.6

Trade and other payables above exclude deferred grants and contributions and receipts in advance. The prior year table has been presented on a similar basis.

18 Financial instruments continued

	Company			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
Financial liabilities by category continued				
At 31 March 2016				
Borrowings				
Current	-	-	494.4	494.4
Non-current	-	-	5,758.2	5,758.2
Trade and other payables				
Current	-	-	202.0	202.0
Derivative financial instruments				
Current	15.2	1.1	-	16.3
Non-current	745.8	127.6	-	873.4
	761.0	128.7	6,454.6	7,344.3
At 31 March 2015				
Borrowings				
Current	-	-	357.1	357.1
Non-current	-	-	6,049.6	6,049.6
Trade and other payables				
Current	-	-	255.2	255.2
Derivative financial instruments				
Current	10.0	1.0	-	11.0
Non-current	739.4	127.7	-	867.1
	749.4	128.7	6,661.9	7,540.0

Trade and other payables above exclude deferred grants and contributions and receipts in advance. The prior year table has been presented on a similar basis.

Notes to the Group financial statements continued

18 Financial instruments continued

	Group and Company			
	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Derivative financial instruments				
Designated as cash flow hedges				
Interest rate swaps	-	(95.0)	-	(80.7)
Cross-currency interest rate swaps	25.2	-	22.6	(34.6)
Energy swaps	-	(33.7)	-	(13.4)
	25.2	(128.7)	22.6	(128.7)
Designated as fair value hedges				
Interest rate swaps	(3.1)	-	26.6	-
Cross-currency interest rate swaps	106.1	-	80.3	-
	103.0	-	106.9	-
Derivative financial instruments designated as hedges	128.2	(128.7)	129.5	(128.7)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	10.6	(188.1)	0.1	(168.9)
RPI swaps	-	(561.3)	-	(572.5)
Energy swaps	-	(11.6)	-	(8.0)
Total derivative financial instruments	138.8	(889.7)	129.6	(878.1)
Derivative financial instruments can be analysed as follows:				
Current	7.3	(16.3)	35.0	(11.0)
Non-current	131.5	(873.4)	94.6	(867.1)
	138.8	(889.7)	129.6	(878.1)

Derivative financial instruments continued

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a loss of £1.3 million (2015: £0.6 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a loss of £4.1 million (2015: gain of £1.8 million).

The notional principal amount of the outstanding interest rate swap contracts, including the GBP leg of cross-currency interest rate swap contracts below, at 31 March 2016 was £3,974.9 million (2015: £3,899.3 million) and outstanding swaptions at 31 March 2016 were £300.0 million (2015: £300.0 million).

The notional foreign currency principal amount of the outstanding cross-currency interest rate swap contracts at 31 March 2016 was USD 1,097.0 million (2015: USD 947.0 million), EUR 500.0 million (2015: EUR 500.0 million), JPY 20.0 billion (2015: JPY 20.0 billion).

At 31 March 2016 the fixed interest rates vary from 2.341 per cent to 6.972 per cent, floating rates vary from 0.589 per cent (LIBOR plus 0.0bp) to 3.417 per cent (LIBOR plus 267.5bp) and index-linked interest rates vary from 1.270 per cent plus RPI to 2.970 per cent plus RPI. Gains and losses recognised in the hedging reserve in equity on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within operating costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions, the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in the hedging reserve in equity on energy hedges will be released to the income statement within finance costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IAS 39 the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There is an inter-company loan agreement in place between two Group companies, Anglian Water Services Limited and Anglian Water Services Financing Plc, which passes the financing arrangements of the external debt and derivative positions held by Anglian Water Services Financing Plc to Anglian Water Services Limited. The inter-company loan agreement is deemed to contain a series of cross-currency and single-currency interest rate swaps to facilitate the transfer of the financing arrangements, which are assessed as being embedded derivatives as defined under IAS 39. The host contract is classed as a floating rate debt and the embedded derivatives behave collectively as a cross-currency interest rate swap, therefore the host contract and embedded derivatives do not behave in a similar manner. The swaps meet the IAS 39 definition of a non-closely related embedded derivative and are separated from the host loan agreement contract. The loan agreement is carried at amortised cost and the embedded derivatives are held at fair value through profit and loss in the entity-only accounts for Anglian Water Services Limited and Anglian Water Services Financing Plc.

There were no other amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2016 (2015: Enil).

The effective interest rates at the balance sheet dates were as follows:

	Group and Company	
	2016 %	2015 %
Borrowings – GBP	3.5	4.0
Borrowings – USD	3.8	2.9
Borrowings – EUR	7.0	7.0
Borrowings – JPY	1.5	1.4

The weighted average interest costs at the balance sheet dates were as follows:

	Group and Company	
	2016 %	2015 %
Fixed	5.7	5.7
Floating	1.4	1.4
Indexed	2.7	3.8

Finance leases

The minimum lease payments under finance leases fall due as follows:

	Group and Company	
	2016 £m	2015 £m
Within one year	6.0	4.7
Between one and five years	27.6	26.0
After five years	8.5	15.5
	42.1	46.2
Future finance charges on finance leases	(3.4)	(3.3)
Present value of finance lease liabilities	38.7	42.9

Notes to the Group financial statements continued

18 Financial instruments continued

	Group			
	2016 Book value £m	2016 Fair value £m	2015 Book value £m	2015 Fair value £m
Fair value of financial assets and liabilities				
Cash and cash equivalents	151.7	151.7	647.5	647.5
Cash deposits	267.3	267.3	110.0	110.0
Borrowings				
Current	(494.4)	(479.8)	(357.1)	(361.4)
Non-current	(5,758.2)	(7,298.2)	(6,049.6)	(7,462.9)
Derivative financial instruments				
Current	6.2	6.2	33.9	33.9
Non-current	(150.6)	(150.6)	(188.5)	(188.5)
RPI swaps				
Current	(8.1)	(8.1)	(8.0)	(8.0)
Non-current	(553.1)	(553.1)	(564.5)	(564.5)
Net debt	(6,539.2)	(8,064.6)	(6,376.3)	(7,793.9)
Non-current asset investments	1,602.6	2,870.3	1,602.6	2,747.3
Energy hedging derivatives	(45.3)	(45.3)	(21.4)	(21.4)
Other financial liabilities	-	(6.5)	-	(5.0)
	(4,981.9)	(5,246.1)	(4,795.1)	(5,073.0)

	Company			
	2016 Book value £m	2016 Fair value £m	2015 Book value £m	2015 Fair value £m
Fair value of financial assets and liabilities				
Cash and cash equivalents	150.4	150.4	646.3	646.3
Cash deposits	267.3	267.3	110.0	110.0
Borrowings				
Current	(494.4)	(479.8)	(357.1)	(361.4)
Non-current	(5,758.2)	(7,298.2)	(6,049.6)	(7,462.9)
Derivative financial instruments				
Current	6.2	6.2	33.9	33.9
Non-current	(150.6)	(150.6)	(188.5)	(188.5)
RPI swaps				
Current	(8.1)	(8.1)	(8.0)	(8.0)
Non-current	(553.1)	(553.1)	(564.5)	(564.5)
Net debt	(6,540.5)	(8,065.9)	(6,377.5)	(7,795.1)
Non-current asset investments	1,602.6	2,870.3	1,602.6	2,747.3
Energy hedging derivatives	(45.3)	(45.3)	(21.4)	(21.4)
Other financial liabilities	-	(6.5)	-	(5.0)
	(4,983.2)	(5,247.4)	(4,796.3)	(5,074.2)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the Group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at 31 March with reference to estimated future cash flows and observable yield curves. The fair value of cross-currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as at 31 March. The fair value of the Group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at 31 March.

The fair value of interest rate swaptions, as included within derivative financial instruments above, represents the cost which the Group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates.

Fair values of 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. Anglian Water has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The Group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 7 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets for identical assets and liabilities. The future cash flows have been discounted at a rate that reflects credit risk.

Financing structure

The Group's regulated water and water recycling business, Anglian Water, is funded predominantly by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2016 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 82.2 per cent (2015: 79.2 per cent).

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance and Non-Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange, for the Group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group. The treasury function will actively endeavour to:

- 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.

Borrowing covenants

All of the Anglian Water Services Group's borrowings are raised by the Company and guaranteed by the Anglian Water Services Financing Group which comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

The treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in May 2015 and treasury matters are reported to the Board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance and Non-Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The Group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA-rated money funds.

The Group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy.

To ensure continued effectiveness and relevance, the Board carries out a formal annual review of the treasury strategy, organisation and reporting.

Notes to the Group financial statements continued

18 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.

(ii) Interest rate

The Group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained between 30 per cent and 60 per cent for fixed rate debt, between 30 per cent and 55 per cent for index-linked debt, and between 5 per cent and 15 per cent for floating rate debt. Within these hedging levels, the Group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as required, within the hedging limits outlined above.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the Group's profits and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	Group and Company	
	2016 £m	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in interest rates	312.1	316.3
1% decrease in interest rates	(428.5)	(648.8)

The following assumptions were made in calculating the interest rate sensitivity analysis:

- Cash flow and fair value hedge relationships remain effective
- The main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions which are not hedge accounted
- Cash flow sensitivity is calculated on floating interest rate net debt
- All other factors are held constant.

(iii) Inflation rate risk

The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for index-linked debt of between 30 per cent and 55 per cent of total debt.

The sensitivity at 31 March of the Group's profit before taxation and equity to changes in RPI on debt and derivative instruments is set out in the following tables:

Debt instruments

The analysis below shows the impact of a one per cent change in RPI over the 12-month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis, which varies from three to 14 months, and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to 14 months earlier.

	Group and Company	
	2016 £m	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	(27.6)	(22.8)
1% decrease in RPI	27.4	22.8

RPI-linked derivatives

The fair values of the Group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table:

	Group and Company	
	2016 £m	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	(190.0)	(171.0)
1% decrease in RPI	133.4	116.1

(iv) Commodity price risk

The Group is allowed a fixed amount of revenue by Ofwat, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow. The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, or through the purchase of wholesale electricity swaps with financial counterparties.

The Group has used a combination of forward contracts and electricity swap contracts to fix the price of 73 per cent of its anticipated electricity usage out to the end of AMP6.

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/decrease in commodity prices would have the following impact:

	Group and Company	
	2016 £m	2015 £m
Increase/(decrease) in profit before tax and in equity		
10% increase in commodity prices	6.7	8.2
10% decrease in commodity prices	(6.7)	(8.2)

(b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. The Group has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The Group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

The table below shows the counterparty by rating type and the balances on deposit:

	Group	
	2016 £m	2015 £m
Counterparty		
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmf or higher	419.0	757.5
	Company	
	2016 £m	2015 £m
Counterparty		
Institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmf or higher	417.7	756.3

In the case of derivatives, any current positive value from a Group perspective is at risk, however there is potential for the value to become increasingly positive in the future as market rates move. 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.

Notes to the Group financial statements continued

18 Financial instruments continued

At 31 March 2016 and 31 March 2015 the maximum exposure to credit risk for the Group and Company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group	
	2016 £m	2015 £m
Cash and cash equivalents	151.7	647.5
Trade and other receivables	496.1	514.4
Investments	267.3	110.0
Derivative financial assets	138.8	129.6
	Company	
	2016 £m	2015 £m
Cash and cash equivalents	150.4	646.3
Trade and other receivables	496.1	514.4
Investments	267.3	110.0
Derivative financial assets	138.8	129.6

(c) Capital risk management

Treasury's prime responsibility is the efficient and effective management of financial resources within the Group i.e. the provision of adequate finance and liquidity at all times whilst maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. Treasury will actively seek opportunities to raise debt, and to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk, whilst maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the high level of gearing in the Group and the long-term nature of the Group's asset base, the Group is primarily funded from the debt capital markets. It is the Group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintains a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

(d) Liquidity risk

The Group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The Group maintains sufficient liquidity to cover 12 months' working capital requirements. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least six months in advance, to ensure covenant compliance.

The Group has the following undrawn committed borrowing facilities available at 31 March 2016, in respect of which all conditions precedent had been met at that date:

	Group	
	2016 £m	2015 £m
Within one year	375.0	375.0
Between one and five years	600.0	500.0
	975.0	875.0

The Company has no borrowing facilities.

The Group's borrowing facilities comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Abbey National Treasury Services Plc and Lloyds TSB Bank Plc, a £96.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services Plc and Commonwealth Bank of Australia; a syndicated £500.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and two new bilateral facilities of £50.0 million each with Bank of China Ltd and Sumitomo Mitsui Banking Corporation for general corporate purposes.

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Group				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
At 31 March 2016					
Trade and other payables	(156.3)	-	-	-	(156.3)
Borrowings	(619.3)	(1,559.4)	(6,726.8)	(3,521.0)	(12,426.5)
Derivative financial instruments	5.3	(36.3)	(73.2)	(894.7)	(998.9)
Finance leases	(6.0)	(27.6)	(8.5)	-	(42.1)
	(776.3)	(1,623.3)	(6,808.5)	(4,415.7)	(13,623.8)
At 31 March 2015					
Trade and other payables	(209.8)	-	-	-	(209.8)
Borrowings	(477.4)	(1,638.9)	(7,015.5)	(3,754.1)	(12,885.9)
Derivative financial instruments	(68.1)	(4.1)	(258.1)	(973.8)	(1,304.1)
Finance leases	(3.7)	(19.0)	(10.2)	-	(32.9)
	(759.0)	(1,662.0)	(7,283.8)	(4,727.9)	(14,432.7)
	Company				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
At 31 March 2016					
Trade and other payables	(202.0)	-	-	-	(202.0)
Borrowings	(619.3)	(1,559.4)	(6,726.8)	(3,521.0)	(12,426.5)
Derivative financial instruments	5.3	(36.3)	(73.2)	(894.7)	(998.9)
Finance leases	(6.0)	(27.6)	(8.5)	-	(42.1)
	(822.0)	(1,623.3)	(6,808.5)	(4,415.7)	(13,669.5)
At 31 March 2015					
Trade and other payables	(255.2)	-	-	-	(255.2)
Borrowings	(477.4)	(1,638.9)	(7,015.5)	(3,754.1)	(12,885.9)
Derivative financial instruments	(68.1)	(4.1)	(258.1)	(973.8)	(1,304.1)
Finance leases	(3.7)	(19.0)	(10.2)	-	(32.9)
	(804.4)	(1,662.0)	(7,283.8)	(4,727.9)	(14,478.1)

Notes to the Group financial statements continued

19 Provisions

	Group and Company			Total £m
	Onerous leases £m	Coupon enhance- ment £m	Legal and other claims £m	
At 1 April 2015	1.3	9.7	-	11.0
Transfer from trade and other payables	-	-	1.5	1.5
Credit for the year	-	-	1.8	1.8
Unwinding of discount	-	0.4	-	0.4
Utilised in the year	(0.2)	(1.6)	(0.4)	(2.2)
At 31 March 2016	1.1	8.5	2.9	12.5

Maturity analysis of total provisions

	2016 £m	2015 £m
Current	3.1	1.4
Non-current	9.4	9.6
	12.5	11.0

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 10 years.

As part of the Anglian Water securitisation that took place in 2002, the bonds that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Ltd for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date.

Provisions for legal and other claims include £2.9 million in respect of legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

20 Deferred tax

	Group and Company					Total £m
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	
At 1 April 2014	1,361.2	(81.0)	(12.1)	(142.5)	(4.5)	1,121.1
Charged/(credited) directly to the income statement	(6.1)	(42.6)	4.4	(2.6)	-	(46.9)
Credited directly to other comprehensive income	-	(15.1)	-	-	-	(15.1)
At 31 March 2015	1,355.1	(138.7)	(7.7)	(145.1)	(4.5)	1,059.1
Charged/(credited) directly to the income statement	(150.3)	(4.3)	1.2	-	1.8	(151.6)
Charged/(credited) directly to other comprehensive income	-	(2.2)	8.7	-	-	6.5
At 31 March 2016	1,204.8	(145.2)	2.2	(145.1)	(2.7)	914.0

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

The deferred tax liability is stated net of advance corporation tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £145.1 million. An equal profit and loss credit would also arise in writing off the inter-group liability to pay for this ACT asset, which is included within note 16 - Trade and other payables.

21 Pension commitments

Pension arrangements for the majority of the Company's UK employees are of the funded defined benefit type through the AWG Pension Scheme (AWGPS). The defined benefit arrangements are closed to new employees, who are eligible instead for entry to AWG's defined contribution schemes. For the AWGPS, as a closed scheme under the projected unit method, the current service cost will increase as the members approach retirement.

The Company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS 19 as at 31 March 2016. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the Company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 10 and 20 years ago. These pension enhancements are payable until the death of their employees (or their dependants) and payments are expected to be made over approximately 25 years.

Full valuations as at 31 March 2014 have been completed for the AWGPS and Hartlepool schemes, the results of which have been used as a basis for the IAS 19 results as at 31 March 2016.

Following a comprehensive review process, in 2011 the Group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme.

The Group has a plan in place with the schemes' trustees to address the funding deficit by 2026, through a series of annual deficit recovery contributions.

The Group contributed 15.5 per cent (2015: 12.5 per cent) of pensionable pay plus £10.0 million (2015: £23.3 million) of deficit reduction payments to AWGPS during the year. In the year to 31 March 2017, employers' contributions are expected to be 15.5 per cent of pensionable pay plus circa £10.0 million of deficit reduction payments.

In addition, the Group operates a defined benefit scheme for the employees of the former Hartlepool Water Limited acquired on 1 April 2000 and a defined contribution scheme which commenced on 1 April 2002.

The weighted average duration of the defined benefit obligation is 19 years for AWGPS and Hartlepool and 12 years for the unfunded scheme.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £7.2 million (2015: £6.3 million).

(a) Principal actuarial assumptions

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

	2016 % pa	2015 % pa
Discount rate	3.5	3.2
Inflation rate		
- RPI	3.0	3.0
- CPI	2.0	2.0
Increase to deferred benefits during deferment		
- RPI	3.0	3.0
- CPI	2.0	2.0
Increases to inflation-related pensions in payment ¹		
- RPI	2.9	2.9
- CPI	2.1	2.1
General salary increases ²	2.5/4.0	2.5/4.0
	2016 Years	2015 Years
Longevity at age 65 for current pensioners		
- Men	23.0	23.2
- Women	25.1	25.5
Longevity at age 65 for future pensioners ³		
- Men	24.9	25.0
- Women	27.0	27.5

¹ For pension increases capped at 5 per cent per annum.

² As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees who are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5 per cent per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.0 per cent per annum) and RPI price inflation (3.0 per cent per annum) are both above 2.5 per cent per annum at 31 March 2016, the 2.5 per cent cap on future pensionable salary increases is assumed to apply. Benefits earned to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5 per cent per annum over the period from 1 April 2012 to retirement or earlier leaving.

³ The life expectancy shown for future pensioners is for those reaching 65 in 2036.

Notes to the Group financial statements continued

21 Pension commitments continued

(b) Sensitivity analysis

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Change in assumption	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
At 31 March 2016					
Discount rate	+/- 0.5% pa	-105/+120	-2/+2	-2/+3	-109/+125
Rate of RPI inflation	+/- 0.5% pa	+112/-98	+2/-2	+3/-2	+117/-102
Rate of salary increases	+/- 0.5% pa	Nil	+1/-1	Nil	+1/-1
Life expectancy	+/- 1 year	+41/-39	+1/-1	+2/-1	+44/-41

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 CPI inflation, pension increases and salary increases due to the way the assumptions are derived.

(c) Risk and risk management

The Group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the Group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the Group) and from an accounting perspective – i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The 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.

Change in bond yields

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

Price inflation

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

Life expectancy

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

(d) Amounts recognised in comprehensive income

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2016				
Amount charged to staff costs within operating profit				
Current service cost	(7.4)	-	(0.2)	(7.6)
Administration expenses	(1.3)	-	-	(1.3)
Total operating charge (see note 8)	(8.7)	-	(0.2)	(8.9)
Net interest (expense)/income (see note 6)	0.5	(1.5)	-	(1.0)
Amounts charged to the income statement	(8.2)	(1.5)	(0.2)	(9.9)
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	(29.3)	-	(0.4)	(29.7)
Actuarial gains arising from changes in financial assumptions	65.0	2.4	0.8	68.2
Actuarial (losses)/gains arising from experience adjustments	(0.3)	-	0.3	-
Net credit to other comprehensive income	35.4	2.4	0.7	38.5

2015

Amount charged to staff costs within operating profit				
Current service cost	(6.9)	-	(0.1)	(7.0)
Administration expenses	(1.2)	-	(0.1)	(1.3)
Total operating charge (see note 8)	(8.1)	-	(0.2)	(8.3)
Net interest expense (see note 6)	(0.1)	(1.9)	(0.1)	(2.1)
Amounts charged to the income statement	(8.2)	(1.9)	(0.3)	(10.4)
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	156.4	-	4.9	161.3
Actuarial losses arising from changes in financial assumptions	(154.1)	(3.6)	(3.7)	(161.4)
Net credit/(charge) to other comprehensive income	2.3	(3.6)	1.2	(0.1)

(e) Amounts recognised in the balance sheet

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2016				
Equities	298.9	-	3.7	302.6
Corporate bonds	536.5	-	-	536.5
Government bonds	296.0	-	-	296.0
Property	107.5	-	-	107.5
Alternatives	(83.4)	-	21.4	(62.0)
Other	108.2	-	-	108.2
Total assets	1,263.7	-	25.1	1,288.8
Present value of scheme liabilities	(1,208.4)	(45.0)	(23.3)	(1,276.7)
Net pension surplus/(deficit)	55.3	(45.0)	1.8	12.1
Comprising:				
Pension schemes with a net surplus, included in non-current assets	55.3	-	1.8	57.1
Pension schemes with a net obligation, included in non-current liabilities	-	(45.0)	-	(45.0)
	55.3	(45.0)	1.8	12.1

Notes to the Group financial statements continued

21 Pension commitments continued

(e) Amounts recognised in the balance sheet continued

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2015				
Equities	301.6	-	3.6	305.2
Corporate bonds	674.2	-	-	674.2
Government bonds	145.6	-	19.0	164.6
Property	86.9	-	-	86.9
Alternatives	(65.7)	-	1.9	(63.8)
Other	129.5	-	-	129.5
Total assets	1,272.1	-	24.5	1,296.6
Present value of scheme liabilities	(1,262.3)	(48.7)	(24.0)	(1,335.0)
Net pension (deficit)/surplus	9.8	(48.7)	0.5	(38.4)
Comprising:				
Pension schemes with a net surplus, included in non-current assets	9.8	-	0.5	10.3
Pension schemes with a net obligation, included in non-current liabilities	-	(48.7)	-	(48.7)
	9.8	(48.7)	0.5	(38.4)

Pension schemes in a net surplus position at the balance sheet date, principally AWGPS, have been shown as retirement benefit surpluses within non-current assets on the balance sheet. This is a change from the 31 March 2015 financial statements where they were included within retirement benefit obligations in non-current liabilities. The March 2015 Group balance sheet included in these consolidated financial statements has been updated to ensure comparability, with no impact on net assets.

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, nor other assets used by, the Group.

(f) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2016				
At 1 April 2015	1,272.1	-	24.5	1,296.6
Interest income on scheme assets	40.4	-	0.8	41.2
Administration costs	(1.3)	-	-	(1.3)
Employers' contributions	18.3	2.8	0.8	21.9
Members' contributions	3.4	-	-	3.4
Benefits paid	(39.9)	(2.8)	(0.6)	(43.3)
Return on plan assets (excluding interest income)	(29.3)	-	(0.4)	(29.7)
At 31 March 2016	1,263.7	-	25.1	1,288.8
2015				
At 1 April 2014	1,074.9	-	18.8	1,093.7
Interest income on scheme assets	46.1	-	0.9	47.0
Administration costs	(1.2)	-	(0.1)	(1.3)
Employers' contributions	29.3	2.8	0.7	32.8
Members' contributions	3.6	-	-	3.6
Benefits paid	(37.0)	(2.8)	(0.7)	(40.5)
Return on plan assets (excluding interest income)	156.4	-	4.9	161.3
At 31 March 2015	1,272.1	-	24.5	1,296.6

(g) Reconciliation of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2016				
At 1 April 2015	(1,262.3)	(48.7)	(24.0)	(1,335.0)
Current service cost	(7.4)	-	(0.2)	(7.6)
Interest cost on scheme liabilities	(39.9)	(1.5)	(0.8)	(42.2)
Members' contributions	(3.4)	-	-	(3.4)
Benefits paid	39.9	2.8	0.6	43.3
Actuarial gain	64.7	2.4	1.1	68.2
At 31 March 2016	(1,208.4)	(45.0)	(23.3)	(1,276.7)
2015				
At 1 April 2014	(1,088.6)	(45.9)	(19.9)	(1,154.4)
Current service cost	(6.9)	-	(0.1)	(7.0)
Interest cost on scheme liabilities	(46.2)	(1.9)	(1.0)	(49.1)
Members' contributions	(3.6)	-	-	(3.6)
Benefits paid	37.0	2.8	0.7	40.5
Actuarial loss	(154.0)	(3.7)	(3.7)	(161.4)
At 31 March 2015	(1,262.3)	(48.7)	(24.0)	(1,335.0)

22 Hedging reserves

	2016 £m	2015 £m
At 1 April 2015	(80.0)	(19.6)
Losses on cash flow energy hedges	(19.0)	(8.6)
Amounts transferred to the income statement	1.3	7.9
Gains/(losses) on cash flow hedges	46.8	(101.5)
Transfer to income statement arising from discontinuation of cash flow hedges	2.3	-
Exchange movement on debt in cash flow hedges	(54.6)	26.7
Deferred tax movement on cash flow hedges	2.2	15.1
At 31 March 2016	(101.0)	(80.0)

23 Share capital

	Group and Company	
	2016 £m	2015 £m
Allotted, issued and fully paid		
10 million (2015: 10 million) ordinary shares of £1 each	10.0	10.0
	10.0	10.0

Notes to the Group financial statements continued

24 Capital commitments

The Group has a substantial long-term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March.

	Group and Company	
	2016 £m	2015 £m
Property, plant and equipment	100.5	69.9
Intangible assets	11.1	8.2
	111.6	78.1

25 Operating lease commitments

The Group and Company lease certain properties and various items of plant and equipment, as well as vehicles, under operating leases. In addition, the Group and Company sub-let a number of leased properties.

At 31 March 2016 the Group and Company had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	2016 £m	2015 £m
Within one year	4.0	4.0
Between one and five years	14.5	14.8
After five years	21.3	25.1
	39.8	43.9

The total future minimum sublease payments expected to be received under non-cancellable operating leases were:

	2016 £m	2015 £m
Within one year	0.4	0.4
Between one and five years	1.7	1.8
After five years	0.7	1.2
	2.8	3.4

26 Contingencies

The Company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2016 amounted to £6,904.2 million (2015: £7,073.7 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the Company. Excluding the £1,602.6 million (2015: £1,602.6 million) loan made by the Company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2016.

In December 2015, Ofwat concluded its long-running investigation of Anglian Water's conduct in relation to the Fairfield development by issuing a 'No grounds for Action' decision. Ofwat has therefore concluded that Anglian Water has not abused its dominant position and, accordingly, that there has been no infringement of the Competition Act 1998.

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

27 Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The Company's immediate parent undertaking is Anglian Water Services Overseas Holdings Limited, a company registered in the Cayman Islands.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors and 3i.

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the Company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the Company. Copies of the Anglian Water Group Limited financial statements and Osprey Acquisitions Limited's financial statements can be obtained from the Company Secretary, Anglian Water Services Limited, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

28 Related party transactions

(a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Company as they each have the ability to influence the financial and operating policies of both the Company and the Group.

During the year to 31 March 2016, Anglian Water Services Financing Plc entered into a USD fixed to GBP floating rate cross-currency interest rate swap agreement with a notional USD principal of £36.0 million and a notional GBP principal of £25.0 million, on normal commercial terms, through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited. In addition to this the Commonwealth Bank of Australia renewed its participation in the £500.0 million revolving credit facility with an allocation of £45.0 million and in the Operation and Maintenance facility with an allocation of £25.0 million. The fees earned on these facilities totalled £243,481.

During the year to 31 March 2015, Anglian Water Services Financing Plc entered into a fixed to fixed swap agreement with a notional principal of £31.3 million, on normal commercial terms, through the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited. In addition to this, the Commonwealth Bank of Australia participated in the new £500.0 million revolving credit facility with an allocation of £45.0 million and renewed its participation in the Class Operation and Maintenance facility. The fees earned on these facilities totalled £188,750.

During the year to 31 March 2016 there were no other transactions, other than £152.2 million of dividends (2015: none other than £180.2 million of dividends) with the shareholders.

(b) Remuneration of key management personnel

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

The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 104 to 135.

	2016 £m	2015 £m
Short-term employee benefits	4.3	4.5
Post-employment benefits	0.5	0.5
Other long-term benefits	1.1	1.5
Termination benefits	-	-
	5.9	6.5

At the balance sheet date key management also held various bonds issued by the Group totalling £0.1 million (2015: £0.1 million).

(c) Parent company

The Company's related party transactions are summarised below:

	2016 £m	2015 £m
Sale of goods/services to		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	0.4	0.4
Purchase of goods/services from		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	0.7	0.5
Management fees received from		
- Parent company	-	-
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Management fees paid to		
- Parent company	-	-
- Subsidiaries	0.3	0.3
- Fellow subsidiaries of Anglian Water Group Limited	-	-

Notes to the Group financial statements continued

28 Related party transactions continued

	2016 £m	2015 £m
Interest received from		
- Parent company	192.8	192.3
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Interest paid to		
- Parent company	-	-
- Subsidiaries	262.3	287.5
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Dividends received from		
- Subsidiaries	-	-
Dividends paid to		
- Parent company	345.0	372.5
	2016 £m	2015 £m
Trade and other receivables due from		
- Parent company	0.5	0.5
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	0.6	1.5
Trade and other payables due to		
- Parent company	-	-
- Subsidiaries	45.7	66.5
- Fellow subsidiaries of Anglian Water Group Limited	0.6	0.6
Loans and other borrowings due from		
- Parent company	1,602.6	1,602.6
- Subsidiaries	-	-
- Fellow subsidiaries of Anglian Water Group Limited	-	-
Loans and other borrowings due to		
- Parent company	-	-
- Subsidiaries	6,192.8	6,363.8
- Fellow subsidiaries of Anglian Water Group Limited	-	-

29 Events after the balance sheet date

The final dividend for 2015/16 of £100.0 million was approved by the Board on 25 May 2016 for payment on 1 June 2016.

Independent auditors' report

Independent auditors' report to the members of Anglian Water Services Limited

Report on the financial statements

Our opinion

In our opinion:

- Anglian Water Services Limited's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Integrated Report (the 'Annual Report'), comprise:

- the Group and Company balance sheets as at 31 March 2016;
- the Group income statement and statement of other comprehensive income for the year then ended;
- the Group and Company cash flow statements for the year then ended;
- the Group and Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Area of focus

Bad debt provision

It is a characteristic of the water industry that some customers pay their bills slowly or are unable to pay. To deal with this, management's bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Whilst the UK economic growth continues to be fragile, there is an ongoing risk of debt being more difficult to collect. The determination by the Group of the appropriate level of provision is therefore inherently open to judgement.

(Refer also to the Audit Committee Report on page 98 and note 2(ii) to the financial statements.)

Our audit approach

Context

There has been no significant change in the business during the year that affected our risk assessment and audit planning, so our approach was consistent with last year.

Overview

Materiality

- Overall Group materiality: £13 million (2015: £16 million) which represents approximately 5% of profit before IAS 39 fair value adjustments and tax.

Audit scope

- The Group comprises Anglian Water Services Limited (the regulated water and wastewater business) and its only subsidiary company Anglian Water Services Financing Plc (which issues the Group's listed debt). Both of these companies were subject to a full statutory audit by the group audit engagement team.

Areas of focus

- Bad debt provision on aged water and sewerage billing across the business.
- Income accruals for metered customers.
- Classification of costs between capital and revenue.
- Treasury, specifically accounting for the fair value of derivatives.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

How our audit addressed the area of focus

We evaluated the appropriateness of the level of bad debt provisioning by comparing historic collection performance for ageing categories against the current level of provision and found it to be appropriate relative to historic collection experience.

We considered the recoverability of debt secured via charging orders and the appropriateness of provisioning rates used for this element of the debt and found the historic collection performance to be consistent with the provisioning model.

We also tested the ageing of the customer debt to which the bad debt provision rates were applied and found no material misstatements in the ageing in the ledger.

We used the group's KPIs in relation to bad debt risk, including leading and lagging indicators in relation to customer debt profile and historic cash collection, to assess ongoing collection performance against the judgements made in the provision and did not note any significant differences or unusual trends.

Independent auditors' report continued

Area of focus

Income accruals for metered customers

Revenue from a portion of customers with water meters is estimated at the year end, the estimate being based on management judgement and historic consumption rates. Management also utilises various methods and tools to sense-check the estimate in determining the final accrual recognised. The significance of this issue meant that we also took it into account when considering the risk of fraud in revenue recognition.

(Refer also to note 2(i) to the financial statements.)

How our audit addressed the area of focus

We evaluated the relevant IT systems and were satisfied with the results of our testing of the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements.

We evaluated the accuracy of management's unbilled estimate from the prior year by comparing this to actual billing in the current period and found the previous estimate to be materially accurate. We compared the level of the accrued income this year with last year and reconciled the movements based on price changes,

increases in the number of customers, demand changes and the specific profiles of billings/meter readings around the year end, and were able to obtain evidence or explanations for changes.

We also evaluated and tested the key assumptions used in the estimation of unbilled revenue, including average water and sewerage usage by tariff, and compared the quantities estimated with the change in the actual volume of water input into the distribution network. Aggregate meter read data was used to verify the year-on-year consumption changes in the model.

We also carried out procedures to understand the output of the corroboration tools employed by the Group to assess the accuracy of the estimate. This included a mass simulation exercise (i.e. a bottom up recalculation) performed as at the year end. To test this, we independently took the subsequent billing of approximately 106,000 installations and used our data tools to compare their post year-end bills to the simulated accrued income. These procedures did not indicate any material issues with the year-end estimates.

In addition, we used a different population of 5,000 customers (randomly selected by Anglian Water) whose meters are read monthly to compare the consumption levels for these customers estimated by management to actual results. Again, the actual billings were materially in line with management's expectations. Finally, we tested a sample of journal entries posted to revenue accounts to identify unusual or irregular items that may be indicative of bias and were able to obtain suitable evidence or explanations for all items selected.

Cost capitalisation
The allocation of costs between capital and non-capital spend is subjective in many instances. Given the magnitude of capital spend, there is a risk that incorrect classification could give rise to a significant misstatement.

Treasury
Under IFRSs all the derivatives used by the Group are recognised at fair value on the balance sheet. The derivatives accounted for at fair value through the income statement are mainly RPI swaps, swaptions and energy derivatives. Due to the complexity of these instruments there is a risk that the valuations are inaccurate. Where possible, derivatives have been designated in effective hedge relationships for interest, currency and energy price risks to reduce volatility in the income statement. These are designated as either cash flow hedges or fair value hedges.

There is a risk that hedge accounting has been applied when the requirements of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement' have not been met and therefore the fair value movements should have been taken to the income statement.

(Refer also to note 2(v)) to the financial statements.)

We evaluated the relevant IT systems and were satisfied with the results of our testing of the internal controls over the completeness, accuracy and existence of costs capitalised in the financial statements.

A sample of capital additions was also successfully agreed to supporting evidence, which supported their quantum and classification as capital items. This included own work capitalised, which was primarily tested to timesheets and charge out rates.

We re-performed a sample of derivative valuations across all instrument types and found no material misstatements.

Where hedge accounting was applied, the hedge was tested against the eligibility criteria of IAS 39, so we were able to check that the hedge documentation was appropriate and the prospective and retrospective effectiveness tested had been structured correctly.

How we tailored the audit scope

The Group comprises Anglian Water Services Limited operating as the regulated water and wastewater business and its only subsidiary company Anglian Water Services Financing Plc, which issues the Group's listed debt, both of which were subject to a full statutory audit by the group audit engagement team. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£13 million (2015: £16 million).
How we determined it	Approximately 5% of profit before IAS 39 fair value adjustments and tax.
Rationale for benchmark applied	This benchmark is an adjusted version of the generally accepted auditing practice of 5% of profit before tax and was also used last year. The IAS 39 fair value movements on derivatives can be volatile and we consider the adjusted measure to give us a more consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2015: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R) (3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 138, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement on going concern as if the Company were a premium listed company. We have nothing to report having performed our review.

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code') as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information
Companies Act 2006 opinion

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
The statement given by the directors on page 101, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
The section of the Annual Report on page 98, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.
The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
The directors' confirmation on page 79 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
The directors' explanation on page 79 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Independent auditors' report continued

The directors have voluntarily complied with Listing Rule 9.8.6(R) (3)(b) of the Financial Conduct Authority and provided a statement in relation to longer-term viability, set out on page 79, required for companies with a premium listing on the London Stock Exchange. The directors have requested that we review the statement on longer-term viability and also the directors' statement that they have carried out a robust assessment of the principal risks facing the Group as if the Company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Directors' Remuneration Report

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matter on which we have agreed to report by exception

Corporate Governance Statement

The Company has chosen voluntarily to comply with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors'

Responsibilities set out on page 139, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

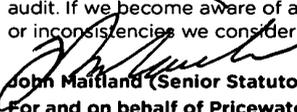
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.


John Maitland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Birmingham
27 May 2016

ANNUAL PERFORMANCE REPORT

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Annual Performance Report and required regulatory information

In accordance with Ofwat guidance we present over the following pages a new Annual Performance Report (APR), for the year ended 31 March 2016. This provides specific information on progress on delivery of customer outcomes, service levels, transparent costs information and financial performance. The APR replaces the Regulatory Accounts that we published in previous years, and is prepared to comply with Condition F of the Instrument of Appointment of Anglian Water Services Limited as a water and sewerage undertaker under the Water Industry Act 1991. This forms part of our integrated reporting, and the commentary on our Outcome Delivery achievements is explained in the Strategic Report at the front of this document. Cross references are shown. The APR comprises four sections:

1. Regulatory financial reporting
2. Price control and additional segmental reporting
3. Outcome performance summary
4. Additional regulatory information

Included in the APR is a compliance statement which confirms that the Company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces.

In addition to the above we have also published on our website a data assurance summary. This sets out the results of the data assurance that the Company has carried out to evidence that the information provided is accurate.

The APR is prepared in accordance with the Regulatory Accounting Guidelines (RAGs) issued by Ofwat, which are based on International Financial Reporting Standards (IFRS) for the first time in 2016.

There are differences between IFRS and the RAGs. Where different treatments are specified under each, the RAGs take precedence.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the Directors to:

- Confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
- Confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company
- Confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker
- Report to Ofwat changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length
- Keep proper accounting records which comply with Condition F
- Undertake that the Company's procurement of services activities was in compliance with paragraph 3.1 of Condition F1 of the Licence throughout the year.

These responsibilities are additional to those already set out in the statutory financial statements.

In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act 2006 the following applies:

- (a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; 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 auditors are aware of that information.

Risk and compliance statement

As the Board of Anglian Water Services, we confirm the following:

- We have sufficient understanding of our obligations as set out in the Water Industry Act and our licence ('our Obligations')
- We are satisfied that we have sufficient processes and internal systems of control to meet our Obligations
- *Subject to any exceptions listed below, we believe we are meeting all our material obligations*
- We have taken adequate steps to understand the range of expectations of our diverse customer base. We have sought to provide a service offering that best meets those expectations, taking into account the requirements of other stakeholders, the sustainability of the business and the level of water bills that customers are willing and able to pay
- We have appropriate systems and processes in place to allow us to identify, manage and mitigate our material risks.

Furthermore, we confirm the following:

- We have sufficient financial and management resources to enable us to carry out our regulated activities and have submitted to Ofwat the certificate to this effect required by section F.6A of our Instrument of Appointment
- The Company has available to it sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company in the event that a special administration order were made, as required by condition K.3 of our Instrument of Appointment
- All trade between the Company and associate companies in the year has been at arm's length, as required by condition F.6 of our Instrument of Appointment
- With our Annual Integrated Report for the year we have published a statement linking Directors' pay to standards of performance, as required under section 35A of the Water Industry Act 1991
- We have maintained for the whole year an issuer credit rating for Anglian Water Services Financing Group of investment grade (Baa1) in accordance with condition F.6A of our Instrument of Appointment.

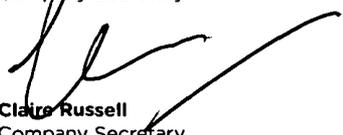
As set out in the long-term financial viability statement on page 72 of this Annual Integrated Report, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period set out in that statement.

Exceptions

The section below identifies obligations set out in the Water Industry Act and our Instrument of Appointment which - with Ofwat's knowledge - we are not complying with.

- The Water Industry Act places an obligation on wastewater companies to maintain maps of their sewers. In common with all other wastewater companies in England and Wales, not all of our sewers are so mapped because the cost of doing so is generally agreed to be uneconomic.
- Condition J of our Instrument of Appointment creates certain obligations regarding the setting, monitoring and reporting of service targets. Because of changes to regulatory approach we are no longer required to fulfil these obligations.

This risk and compliance statement was approved by the Board of Directors on 27 May 2016 and signed on its behalf by Claire Russell, Company Secretary.



Claire Russell
Company Secretary
27 May 2016

Table 1A - Income statement

for the year ended 31 March

	2016				Total appointed activities £m
	Adjustments				
	Statutory £m	Differences between statutory and RAG definitions ¹ £m	Non-appointed £m	Total adjustments £m	
Revenue	1,185.4	-	(18.8)	(18.8)	1,166.6
Operating costs	(863.4)	8.9	10.6	19.5	(843.9)
Other operating income	13.6	3.5	-	3.5	17.1
Operating profit	335.6	12.4	(8.2)	4.2	339.8
Other income	-	-	-	-	-
Interest income	196.4	-	-	-	196.4
Interest expense	(255.3)	(10.0)	-	(10.0)	(265.3)
Other interest expense	-	(1.0)	-	(1.0)	(1.0)
Profit before tax and fair value movements	276.7	1.4	(8.2)	(6.8)	269.9
Fair value losses on financial instruments	(84.9)	-	-	-	(84.9)
Profit before tax	191.8	1.4	(8.2)	(6.8)	185.0
UK corporation tax	(12.8)	-	1.6	1.6	(11.2)
Deferred tax	151.6	(0.3)	-	(0.3)	151.3
Profit for the year	330.6	1.1	(6.6)	(5.5)	325.1

¹ The principal difference between the statutory accounts and the APR is in respect of capitalised interest. For regulatory reporting capitalised interest is not permitted and therefore the adjustments are to reverse out the impact on depreciation, interest and deferred tax. The other adjustments are reclassifications of the following items:

- Profit on disposals is treated as operating costs in the statutory accounts and other operating income in the APR.
- Interest charges in respect of defined benefit pension schemes are classified as interest expense in the statutory accounts, and other interest expense in the APR.

Table 1B - Statement of comprehensive income

for the year ended 31 March

	2016				Total appointed activities £m
	Adjustments				
	Statutory £m	Differences between statutory and RAG definitions ¹ £m	Non-appointed £m	Total adjustments £m	
Profit for the year	330.6	1.1	(6.6)	(5.5)	325.1
Actuarial gains on post-employment plans	29.8	-	-	-	29.8
Other comprehensive income	(21.0)	-	-	-	(21.0)
Total comprehensive income for the year	339.4	1.1	(6.6)	(5.5)	333.9

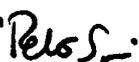
¹ The principal difference between the statutory accounts and the APR is in respect of capitalised interest. For regulatory reporting, capitalised interest is not permitted and therefore the adjustments are to reverse out the impact on profit for the year.

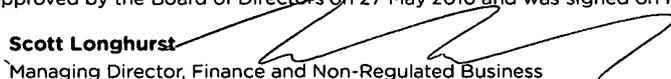
Table 1C - Statement of financial position

at 31 March

	2016				Total appointed activities £m
	Adjustments				
	Statutory £m	Differences between statutory and RAG definitions ¹ £m	Non-appointed £m	Total adjustments £m	
Non-current assets					
Fixed assets ²	9,426.1	(329.4)	(11.8)	(341.2)	9,084.9
Intangible assets	129.1	(7.4)	(0.7)	(8.1)	121.0
Investments - loans to Group companies	1,602.6	-	-	-	1,602.6
Investments - other	-	-	-	-	-
Financial instruments	131.5	-	-	-	131.5
Retirement benefit assets	57.1	-	-	-	57.1
Total non-current assets	11,346.4	(336.8)	(12.5)	(349.3)	10,997.1
Current assets					
Inventories	9.0	-	-	-	9.0
Trade and other receivables	496.1	-	-	-	496.1
Financial instruments	7.3	-	-	-	7.3
Cash and cash equivalents	417.7	-	(1.6)	(1.6)	416.1
Total current assets	930.1	-	(1.6)	(1.6)	928.5
Current liabilities					
Trade and other payables	(481.8)	(22.2)	12.5	(9.7)	(491.5)
Capex creditor	-	(57.2)	-	(57.2)	(57.2)
Borrowings	(494.4)	93.1	-	93.1	(401.3)
Financial instruments	(16.3)	-	-	-	(16.3)
Current tax liabilities	(125.1)	-	1.6	1.6	(123.5)
Provisions	(3.1)	(13.7)	-	(13.7)	(16.8)
Total current liabilities	(1,120.7)	-	14.1	14.1	(1,106.6)
Net current (liabilities)/assets	(190.6)	-	12.5	12.5	(178.1)
Non-current liabilities					
Trade and other payables	(145.1)	-	-	-	(145.1)
Borrowings	(5,758.2)	-	-	-	(5,758.2)
Financial instruments	(873.4)	-	-	-	(873.4)
Retirement benefit obligations	(45.0)	-	-	-	(45.0)
Provisions	(9.4)	-	-	-	(9.4)
Deferred income - G&Cs	(443.6)	-	-	-	(443.6)
Deferred tax	(914.0)	60.6	-	60.6	(853.4)
Total non-current liabilities	(8,188.7)	60.6	-	60.6	(8,128.1)
Net assets	2,967.1	(276.2)	-	(276.2)	2,690.9
Equity					
Called-up share capital	10.0	-	-	-	10.0
Retained earnings and other reserves	2,957.1	(276.2)	-	(276.2)	2,680.9
Total equity	2,967.1	(276.2)	-	(276.2)	2,690.9

The Annual Performance Report was approved by the Board of Directors on 27 May 2016 and was signed on its behalf by:

Peter Simpson
Chief Executive 

Scott Longhurst
Managing Director, Finance and Non-Regulated Business 

¹ The principal difference between the statutory accounts and APR is in respect of capitalised interest. For regulatory reporting, capitalised interest is not permitted and therefore the adjustments are to reverse out the impact on accumulated depreciation, deferred tax and reserves. The only other adjustments are the reclassification of grants and contributions, capital creditors and accrued interest.

² On transition to IFRS, Anglian Water elected to measure the infrastructure and operational assets at 1 April 2013, being the date of transition to IFRS, at their fair value. This had the effect of increasing the value of fixed assets by £3,324.9 million.

Table 1D - Statement of cash flows

for the year ended 31 March

	2016				Total appointed activities £m
	Adjustments			Total adjustments £m	
	Statutory £m	Differences between statutory and RAG definitions ¹ £m	Non-appointed £m		
Statement of cash flows					
Operating profit	335.6	12.4	(8.2)	4.2	339.8
Other income	4.8	-	-	-	4.8
Depreciation	297.9	(12.4)	-	(12.4)	285.5
Amortisation - G&Cs	(13.5)	-	-	-	(13.5)
Changes in working capital	36.3	-	-	-	36.3
Pension contributions	(13.0)	-	-	-	(13.0)
Movement in provisions	(0.2)	-	-	-	(0.2)
Profit on sale of fixed assets	(3.5)	-	-	-	(3.5)
Cash generated from operations	644.4	-	(8.2)	(8.2)	636.2
Net interest paid	(25.1)	(2.2)	-	(2.2)	(27.3)
Tax paid	(16.9)	-	1.6	1.6	(15.3)
Net cash generated from operating activities	602.4	(2.2)	(6.6)	(8.8)	593.6
Investing activities					
Capital expenditure	(300.2)	-	-	-	(300.2)
Grants and contributions	30.8	-	-	-	30.8
Disposal of fixed assets	3.9	-	-	-	3.9
Other	(157.3)	-	-	-	(157.3)
Net cash used in investing activities	(422.8)	-	-	-	(422.8)
Net cash generated before financing activities	179.6	(2.2)	(6.6)	(8.8)	170.8
Cash flows from financing activities					
Equity dividends paid	(345.0)	-	6.6	6.6	(338.4)
Net loans received	(330.5)	2.2	-	2.2	(328.3)
Net cash generated from financing activities	(675.5)	2.2)	6.6)	8.8)	(666.7)
Decrease in net cash	(495.9)	-	-	-	(495.9)

¹ The principal difference between the statutory accounts and the APR is in respect of capitalised interest. For regulatory reporting, capitalised interest is not permitted and therefore the depreciation of capitalised interest has been removed here. The only other adjustment is a reclassification of issue costs from interest paid to net loans received.

Table 1E - Net debt analysis

at 31 March

	2016			Total £m
	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index-linked £m	
Borrowings ^{1,2} (excluding preference shares)	2,197.8	337.7	3,578.0	6,113.5
Preference share capital				-
Total borrowings				6,113.5
Cash ³				(83.3)
Short-term deposits ³				(333.8)
Net debt				5,696.4
Gearing				82.2%
Adjusted gearing				82.2%
Full-year equivalent nominal interest cost	129.9	11.9	121.6	263.4
Full-year equivalent cash interest payment	129.9	11.9	74.4	216.2
Indicative interest rates				
Indicative weighted average nominal interest rate	5.9%	3.5%	3.4%	4.3%
Indicative weighted average cash interest rate	5.9%	3.5%	2.1%	3.5%

¹ The borrowings number reported here differs from that reported in the statutory accounts in that it excludes accrued interest and fair value accounting adjustments which do not impact upon the principal sum outstanding or the total interest paid.

² Excludes issue costs of £29.4 million.

³ Cash and short-term deposits are split as per RAG 4.05. This differs from the statutory accounting treatment in that all money market deposits are shown as short-term deposits here, whereas in the statutory accounts these are split based on their maturity dates.

Table 2A - Segmental income statement

for the year ended 31 March

	2016				Total £m
	Retail		Wholesale		
	Household £m	Non-household £m	Water £m	Wastewater £m	
Revenue - price control	78.2	15.1	426.5	635.1	1,154.9
Revenue - non price control	-	-	10.1	1.6	11.7
Operating costs	(72.3)	(9.0)	(312.7)	(449.9)	(843.9)
Other operating income	-	-	7.2	9.9	17.1
Operating profit before recharges	5.9	6.1	131.1	196.7	339.8
Recharges from other segments	(0.1)	-	-	(15.9)	(16.0)
Recharges to other segments	2.6	0.1	13.3	-	16.0
Operating profit	8.4	6.2	144.4	180.8	339.8
Surface water drainage rebates					0.5

Table 2B - Totex analysis - wholesale

for the year ended 31 March

	2016		Total £m
	Water £m	Wastewater £m	
Operating expenditure			
Power	34.1	38.2	72.3
Income treated as negative expenditure	(0.7)	(9.0)	(9.7)
Service charges/discharge consents	10.4	6.7	17.1
Bulk supply/bulk discharge	1.5	-	1.5
Other operating expenditure	118.1	204.2	322.3
Local authority rates	43.9	25.6	69.5
Total operating expenditure excluding third-party services	207.3	265.7	473.0
Third-party services	6.2	0.8	7.0
Total operating expenditure	213.5	266.5	480.0
Capital expenditure			
Maintaining the long-term capability of the assets - infra	16.3	20.2	36.5
Maintaining the long-term capability of the assets - non-infra	43.9	80.1	124.0
Other capital expenditure - infra	32.3	22.1	54.4
Other capital expenditure - non-infra	25.1	22.9	48.0
Total gross capital expenditure excluding third-party services	117.6	145.3	262.9
Third-party services	-	-	-
Total gross capital expenditure	117.6	145.3	262.9
Grants and contributions (price control)	(18.2)	(8.8)	(27.0)
Totex	312.9	403.0	715.9
Cash expenditure			
Pension deficit recovery payments	3.7	5.3	9.0
Other cash items	-	-	-
Total cash expenditure	3.7	5.3	9.0
Totex including cash items	316.6	408.3	724.9

Table 2C - Operating cost analysis - retail

for the year ended 31 March

	2016		Total £m
	Household £m	Non-household £m	
Operating expenditure			
Customer services	15.5	2.6	18.1
Debt management	7.8	0.8	8.6
Doubtful debts	30.6	1.3	31.9
Meter reading	3.1	0.4	3.5
Services to developers	-	0.2	0.2
Other operating expenditure	13.6	3.7	17.3
Total operating expenditure excluding third-party services	70.6	9.0	79.6
Third-party services operating expenditure	-	-	-
Total operating expenditure	70.6	9.0	79.6
Depreciation	1.5	0.1	1.6
Total operating costs	72.1	9.1	81.2
Debt written off	28.0	3.4	31.4

Actual reported unmeasured household retail revenue is £0.7 million above allowed revenue based on the weighted average number of unique customers by service. Measured household retail revenue is £1.3 million lower than allowed retail revenues. This reflects the apportioning of revenue recovery across the customer base, as allowed by the control. The net position for household retail revenue of £0.6 million under recovery (0.8 per cent of retail revenue) reflects the increased take-up of the concessionary tariffs Watersure and Aquacare Plus as compared to forecast. The cross-subsidy for these tariffs is accounted for through retail revenue.

The overall difference in allowed retail non-household revenue for the water and wastewater service is negative £0.1 million. The overall aggregate net margin for retail customers is 2.5 per cent, in line with the expected net margin set out in the guidance for setting the price control.

Household costs in the year of £72.1 million were slightly ahead of allowed retail costs of £71.0 million, although the number of customers was 0.5 per cent less in 2016 than assumed in price limits.

Non-household costs were £9.1 million against £9.2 million assumed in price limits.

The underlying non-household opex charge in the year (excluding a non-recurring, non-cash credit in relation to bad debts) was £10.8 million, in line with forecast but £1.8 million higher than the Final Determination. As we continue to separate the systems and people associated with non-household retail and prepare for market opening, we expect the level of overspend to increase over the next two years.

In the year, we recorded a £1.8 million credit in relation to the bad debt charge. Anglian Water has not previously set provisioning rates for household and non-household separately. This change in the year resulted in a reduction in the provisioning rates, in particular for debt less than one year old, giving a non-recurring credit in the year.

Non-household capex was £1.1 million (£248,000 tangible and £838,000 intangible) relating to the costs of separating IT infrastructure, systems and accommodation from the household business. We expect a similar level of capex in the coming year as we continue to separate our IT systems in preparation for market opening. The allowed capex in the Final Determination was less than £0.1 million and therefore the overspend in the year will result in additional depreciation over the AMP.

Total household customers reduced by 4,000 due to a change in the method of calculating. A customer with more than one meter at a premises will now only be counted once as they will pay a single fixed charge for the service(s) they receive. Without this change household numbers would have increased by 15,000 in the year. The number of non-household customers remains unchanged. The number of metered households has risen from 85 per cent in 2015 to 86.2 per cent in 2016.

Table 2D - Historical cost analysis of fixed assets

for the year ended 31 March

	2016				Total £m
	Wholesale		Retail		
	Water £m	Wastewater £m	Household £m	Non-household £m	
Cost¹					
At 1 April 2015	5,231.2	7,136.3	11.2	0.3	12,379.0
Disposals	(5.3)	(6.2)	(0.3)	(0.2)	(12.0)
Additions	96.9	140.6	0.6	0.3	238.4
At 31 March 2016	5,322.8	7,270.7	11.5	0.4	12,605.4
Depreciation					
At 1 April 2015	(1,149.7)	(2,120.0)	(5.6)	(0.2)	(3,275.5)
Disposals	5.3	6.0	0.1	0.2	11.6
Charge for the year	(94.5)	(161.0)	(1.0)	(0.1)	(256.6)
At 31 March 2016	(1,238.9)	(2,275.0)	(6.5)	(0.1)	(3,520.5)
Net book amount at 31 March 2016	4,083.9	4,995.7	5.0	0.3	9,084.9
Net book amount at 1 April 2015	4,081.5	5,016.3	5.6	0.1	9,103.5

Above table excludes intangible assets with a net book value at 31 March 2016 of £121.0 million (2015: £109.6 million).

¹ On transition to IFRS Anglian Water elected to measure the infrastructure and operational assets at 1 April 2013, being the date of transition to IFRS, at their fair value. This had the effect of increasing the value of fixed assets by £3,324.9 million.

Table 2E - Analysis of capital contributions and land sales - wholesale

for the year ended 31 March

	2016			Total £m
	Fully recognised in income statement £m	Deferred and amortised £m	Fully netted off capex £m	
Grants and contributions - water				
Connection charges (s45)	-	8.5	-	8.5
Infrastructure charge receipts (s146)	-	6.8	-	6.8
Requisitioned mains (s43, s55 and s56)	-	2.9	-	2.9
Diversions (s185)	-	-	-	-
Other contributions	-	-	-	-
Total	-	18.2	-	18.2
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	7.8	-	7.8
Requisitioned sewers (s100)	-	1.0	-	1.0
Diversions (s185)	-	0.3	-	0.3
Other contributions	-	14.6	-	14.6
Total	-	23.7	-	23.7

	2016		Total £m
	Water £m	Wastewater £m	
Balance sheet			
Brought forward	227.5	201.4	428.9
Deferred contributions received	18.2	23.7	41.9
Amortisation (in income statement)	(7.0)	(6.6)	(13.6)
Carried forward	238.7	218.5	457.2
Land sales			
Proceeds from disposals of protected land	0.2	3.1	3.3

Table 2F - Household revenues by customer type

for the year ended 31 March

	2016				
	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer £
Unmeasured water only customer	21.3	1.7	23.0	104.9	16.50
Unmeasured wastewater only customer	73.3	4.5	77.8	272.0	16.50
Unmeasured water and wastewater customer	153.3	10.4	163.7	315.1	33.00
Measured water only customer	18.0	2.5	20.5	127.7	19.54
Measured wastewater only customer	103.3	10.3	113.6	529.6	19.48
Measured water and wastewater customer	461.4	48.8	510.2	1,381.4	35.32
Total	830.6	78.2	908.8	2,730.7	28.64

Table 2G - Non-household water revenues by customer type

for the year ended 31 March

	2016				
	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers	Average non-household retail revenue per customer £
Default tariffs					
Unmeasured (potable water)	0.4	0.1	0.5	1,789	24.72
Hartlepool Unmeasured (potable water)	0.1	-	0.1	393	19.40
Streamline Green (potable water) - (0.0 MI to 0.5 MI)	39.7	5.5	45.2	97,371	56.07
Streamline Orange (potable water) - (0.5 MI to 5.0 MI)	12.2	0.8	13.0	5,549	147.33
Streamline Blue (potable water) - (5.0 MI to 10.0 MI)	4.6	0.4	5.0	850	453.39
Profile (potable water) - (10.0 MI to 25.0 MI)	9.1	0.4	9.5	481	837.13
Profile Plus (potable water) - (25.0 MI +)	27.5	0.3	27.8	277	1,348.78
Profile Interruptible (potable water) - (25.0 MI +)	8.9	0.1	9.0	39	1,956.53
Hartlepool Commercial (potable water) - (0.0 MI to 50.0 MI)	1.0	0.1	1.1	1,308	55.56
Hartlepool Profile (potable water) - (50.0 MI +)	1.0	-	1.0	6	1,661.69
Streamline Orange (non-potable water) - (0.0 MI to 5.0 MI)	-	-	-	3	139.33
Streamline Blue (non-potable water) - (5.0 MI to 10.0 MI)	0.1	-	0.1	2	639.43
Profile (non-potable water) - (10.0 MI to 25.0 MI)	-	-	-	1	690.94
Profile Plus (non-potable water) - (25.0 MI to 400.0 MI)	1.6	-	1.6	5	2,173.54
Profile Industrial (non-potable water) - (400.0 MI +)	8.2	-	8.2	3	15,242.43
Special Agreements (potable water) - (0.0 MI +)	0.5	-	0.5	3	1,655.00
Special Agreements (non-potable water) - (0.0 MI +)	1.7	-	1.7	2	4,919.72
Total	116.6	7.7	124.3	108,082	71.46

There were no non-default tariffs in the year.

Table 2H - Non-household wastewater revenues by customer type

for the year ended 31 March

	2016				
	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers	Average non-household retail revenue per customer £
Default tariffs					
Unmeasured (sewerage)	1.1	0.1	1.2	3,575	26.12
Streamline Green (sewerage) - (0.0 MI to 0.5 MI)	50.8	5.4	56.2	101,407	52.82
Streamline Orange (sewerage) - (0.5 MI to 5.0 MI)	11.2	0.4	11.6	5,241	79.84
Streamline Blue (sewerage) - (5.0 MI to 50.0 MI)	12.2	0.3	12.5	1,297	267.80
Profile (sewerage) - (50.0 MI +)	9.5	0.1	9.6	220	506.71
Unmeasured (trade effluent)	-	-	-	26	29.00
Streamline Green (trade effluent) - (0.0 MI to 0.5 MI)	2.0	0.5	2.5	2,207	235.46
Streamline Orange (trade effluent) - (0.5 MI to 5.0 MI)	1.2	0.1	1.3	515	251.65
Streamline Blue (trade effluent) - (5.0 MI to 50.0 MI)	2.4	0.2	2.6	352	438.48
Profile (trade effluent) - (50.0 MI +)	24.0	0.3	24.3	195	1,532.73
Total	114.4	7.4	121.8	115,035	64.59

There were no non-default tariffs in the year.

Table 21 – Revenue analysis and wholesale control reconciliation

for the year ended 31 March

	2016		Total £m
	Household £m	Non-household £m	
Wholesale charge - water			
Unmeasured	92.3	0.5	92.8
Measured	217.6	116.1	333.7
Third-party revenue	-	-	-
Total	309.9	116.6	426.5
Wholesale charge - wastewater			
Unmeasured	155.6	1.1	156.7
Measured	365.1	113.3	478.4
Third-party revenue	-	-	-
Total	520.7	114.4	635.1
Wholesale total	830.6	231.0	1,061.6
Retail revenue			
Unmeasured	16.6	0.2	16.8
Measured	61.6	15.0	76.6
Retail third-party revenue	-	-	-
Retail total	78.2	15.2	93.4
Third-party revenue - non price control			
Bulk supplies			9.6
Other third-party revenue			0.4
Other appointed revenue			1.6
Total appointed revenue			1,166.6
	Water	Wastewater	Total
Wholesale revenue governed by price control	426.5	635.1	1,061.6
Grants and contributions	18.1	8.8	26.9
Total revenue governed by wholesale price control	444.6	643.9	1,088.5
Amount assumed in wholesale determination	443.0	649.7	1,092.7
Difference	1.6	(5.8)	(4.2)

Wholesale revenue controls are set for water and wastewater separately. The values set out in the Final Determination in 2012/13 prices are re-priced based on RPI to give the allowed revenue for 2015/16. The allowed revenue as calculated in 2015/16 prices was used for setting charges for the 2015/16 Charges Scheme.

Allowed wholesale water revenue and wholesale wastewater revenue for main charges was calculated as £426.5 million and £635.0 million respectively. Actual wholesale revenue performance against allowed revenue was therefore negative £0.049 million for water and positive £0.147 million for wastewater. This represents negative 0.01 per cent and positive 0.02 per cent respectively.

We do not receive any grants. In the current year all contributions were received for new development.

Due to the improving housing market, contributions in respect of water were greater than the indexed Final Determination by £2.2 million.

Contributions in respect of wastewater were less than the indexed Final Determination by £5.6 million. This is due to the impact of removing certain types of requisition offers to developers and the exclusion of sewer adoption fees from the APR tables which were included in the Final Determination.

Table 3A - Outcome performance table

for the year ended 31 March

Performance commitment	Units	2014/15 performance level - actual	2015/16 performance level - actual	2015/16 CPL met?*	2015/16 reward or penalty (In-period ODIs)	2015/16 reward or penalty (In-period ODIs) £m absolute value	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 £m absolute value	Total AMP6 reward or penalty 31 March 2020 forecast†	Total AMP6 reward or penalty 31 March 2020 forecast† £m absolute value	Further detail can be found on page
Water supply interruptions averaged over three years (reduction)	time	19.2	8.2	Yes	Not applicable	-	Reward	5.7	Reward deadband	-	37
Properties at risk of persistent low pressure	number	505	462	Not applicable	Not applicable	-	Not applicable	-	Reward deadband	-	36
Water quality contacts	number	1.48	1.38	Yes	Not applicable	-	Reward deadband	-	Reward deadband	-	32
Value for money perception - variation from baseline against WaSCs (water)	%	1	tbc ¹	Not applicable	Not applicable	-	Not applicable	tbc ¹	Reward deadband	-	28
Percentage of population supplied by single supply system	%	46.9	46.3	Not applicable	Not applicable	-	Not applicable	-	Penalty deadband	-	40
Frequency of service level restrictions (hosepipe bans)	number	1	1	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	41
Security of Supply Index (SoSI) - dry year annual average	score	100	100	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	41
Security of Supply Index (SoSI) - critical period (peak) demand	score	100	100	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	41
Per property consumption (PPC) (litres/household/day reduction)	number	-	(2)	Not applicable	Not applicable	-	Not applicable	-	Penalty deadband	-	30
Leakage - three-year average	number	191	189	Yes	Reward	0.5	Not applicable	-	Reward	19.1	35
Percentage of SSSIs (by area) with favourable status	%	49	98.9	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	43-44
Environmental compliance (water)	number	-	0	Not applicable	Not applicable	-	Not applicable	-	Penalty deadband	-	41
Operational carbon (% reduction from 2015 baseline)	%	-	5	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Embodied carbon (% reduction from 2010 baseline)	%	54	53	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Survey of community perception	%	Not available	56	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	53
Water infrastructure	category	Stable	Green	Yes	Not applicable	-	Penalty deadband	-	Penalty deadband	-	67

Performance commitment	Units	2014/15 performance level - actual	2015/16 performance level - actual	2015/16 CPL met? ²	2015/16 reward or penalty (In-period ODis)	2015/16 reward or penalty (In-period ODis) £m absolute value	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 £m absolute value	Total AMP6 reward or penalty 31 March 2020 forecast ³	Total AMP6 reward or penalty 31 March 2020 forecast ³ £m absolute value	Further detail can be found on page
Water non-infrastructure	category	Stable	Green	Yes	Not applicable	-	Penalty deadband	-	Penalty deadband	-	67
Mean zonal compliance (MZC)	%	99.97	99.97	Yes	Not applicable	-	Penalty deadband	-	Penalty deadband	-	31-32
Properties flooded internally from sewers - three-year average (reduction)	number	-	61	Not applicable	Not applicable	-	Not applicable	-	Reward deadband	-	63-65
Properties flooded externally from sewers - three-year average (reduction)	number	-	536	Not applicable	Not applicable	-	Not applicable	-	Penalty deadband	-	63-65
Percentage of sewerage capacity schemes incorporating sustainable solutions	%	-	4	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	66
Value for money perception variation from baseline against WaSCs (wastewater)	%	1	tbc ¹	Not applicable	Not applicable	-	Not applicable	tbc ¹	Reward deadband	-	28
Percentage of bathing waters attaining excellent status	%	71	71	Yes	Not applicable	-	Not applicable	-	Reward deadband	-	45
Percentage of SSSIs (by area) with favourable status	%	49	98.9	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	43-44
Pollution incidents (category 3)	number	390	144	Yes	Not applicable	-	Reward	4.4	Reward deadband	-	63
Environmental compliance (wastewater)	number	-	0	Not applicable	Not applicable	-	Not applicable	-	Penalty deadband	-	62
Operational carbon (% reduction from 2015 baseline)	%	-	5	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Embodied carbon (% reduction from 2010 baseline)	%	54	53	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Survey of community perception	%	Not available	56	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	53
Sewerage infrastructure	category	Stable	Green	Yes	Not applicable	-	Penalty deadband	-	Penalty deadband	-	67
Sewerage non-infrastructure	category	Stable	Green	Yes	Not applicable	-	Penalty deadband	-	Penalty deadband	-	67
Qualitative service incentive mechanism (SIM) score	rank	Not applicable	3rd	Yes	Not applicable	-	Not applicable	-	Not applicable	-	26-27
Service incentive mechanism (SIM)	score	Not applicable	85	Not applicable	Not applicable	-	Not applicable	-	Reward deadband	-	26-27

Table 3A - Outcome performance table continued

for the year ended 31 March

Performance commitment	Units	2014/15 performance level - actual	2015/16 performance level - actual	2015/16 CPL met? ²	2015/16 reward or penalty (in-period ODIs)	2015/16 reward or penalty (in-period ODIs) Em absolute value	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 Em absolute value	Total AMP6 reward or penalty 31 March 2020 forecast ³	Total AMP6 reward or penalty 31 March 2020 forecast ³ Em absolute value	Further detail can be found on page
Customer Satisfaction Index prepared by UK Institute of Customer Service	rank	9/19	9/15	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	27
Fairness of bills perception - variation from baseline against WaSCs	%	3	tbc ¹	Not applicable	Not applicable	-	Not applicable	tbc ¹	Reward deadband	-	28
Affordability perception - variation from baseline against WaSCs	%	3	tbc ¹	Not applicable	Not applicable	-	Not applicable	tbc ¹	Reward deadband	-	28
Operational carbon (% reduction from 2015 baseline)	%	-	5	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Embodied carbon (% reduction from 2010 baseline)	%	54	53	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	48-50
Survey of community perception	%	Not available	56	Not applicable	Not applicable	-	Not applicable	-	Not applicable	-	53

¹ Each year we find out what our customers think about our charges through four independent surveys carried out by the Consumer Council for Water. We are committed to at least maintaining levels of satisfaction for fairness, affordability and value for money. In all four areas we were showing an improving trend for 2014/15 and expect this to continue when the results of the most recent survey for 2015/16 are announced in August. Because the 2015/16 results weren't available when this report was published, we have shown the performance as 'tbc'.

² We do not have Committed Performance Levels (CPLs) for every ODI. Where this is the case we have shown 'Not applicable' in the fifth column.

³ With the exception of our leakage ODI, where we will claim any reward or penalty in period (i.e. before 2020), the rewards and penalties for all ODIs will be claimed at the end of the regulatory period (i.e. after 2020).

Notes to Table 3A - Outcome performance table

for the year ended 31 March

The information reported in Table 3A is consistent with the reports on Outcome Delivery Incentive (ODI) performance we made to our Customer Engagement Forum in January and June 2016.

The table shows that we have earned rewards for performance in three ODIs: leakage, supply interruptions and pollution incidents. These rewards are stated in 2012/13 prices, to be consistent with our PR14 Final Determination and comply with Ofwat's guidance. Within our Strategic Report we have inflated these figures at year average RPI to 2015/16 figures to make them more relevant to stakeholders. A comparison between the figures is shown below:

	Rewards from 2015/16 ODI performance (£m)	
	2012/13 prices	2015/16 prices
Interruptions to supply	5.7	6.0
Leakage	0.5	0.5
Pollution incidents	4.4	4.7
Total	10.6	11.2

In general we are not forecasting rewards or penalties for any ODIs by the end of 2019/20 at this stage of the five-year price control period. Forecasting rewards would be inappropriate after only the first year, given the risks which might cause performance to deviate from our targets over the remaining four years. The exception to this rule is in respect of the leakage ODI, where we are committing funds to achieve a step change reduction in leakage and are confident of achieving our target of 172 MI/d by 2019/20.

Commentary on progress against our ODIs is included in the Strategic Report at the front of this document. Cross references are shown in the right-hand column of Table 3A. Further detail about all our ODIs is available on our website at www.anglianwater.co.uk

Serviceability - additional information

To continue to provide the services that our customers expect now and over the long term we need to look after our assets (e.g. equipment, pipes and buildings). We use the term serviceability to mean the ability of our assets to continue delivering a reference level of service to customers.

Serviceability is assessed by 13 sub-measures. The measures are split over four types of asset. For each measure we agree a 'normal' level, called the reference level, which is typically close to the best historical performance. We must also make sure that we don't exceed the worst level of performance that can be accounted for by reasonable natural variation - this is called the upper control limit. If our performance is worse than this upper control limit a penalty may be incurred. The table below shows our performance in 2015/16 against each of the sub-measures.

Performance commitment/sub-measure	Failure threshold for AMP6	Actual performance levels (PCs and sub-measures)		
		2014/15 performance level - actual	2015/16 performance level - actual	2015/16 CPL met?
W-H1: Water infrastructure				
Unplanned interruptions >12 hours	1,500	6,529	1,256	Yes
Reactive mains bursts - variation from modelled number	+1.8%	n/a	-10.0%	Yes
Customer contacts - discolouration	0.52	0.47	0.39	Yes
Distribution maintenance index	0.16	0.06	0.05	Yes
W-H2: Water non-infrastructure				
WTW with coliforms detected	6	6	8	No
Percentage (%) service reservoirs with >5% coliforms	0.26	0	0	Yes
WTW turbidity	1	0	0	Yes
S-F1: Sewerage infrastructure				
Pollution incidents	160	142	81	Yes
Sewer collapses	520	250	247	Yes
Internal flooding (overloaded + other causes)	340	263	220	Yes
Sewer blockages	14,183	11,017	11,885	Yes
S-F2: Sewerage non-infrastructure				
Population equivalent (PE) WwTW in breach of consent	1.7	0	0	Yes
WwTW failing numeric consent	2.8	1.25	0.82	Yes

Further detail about all our serviceability sub-measures is available on our website at www.anglianwater.co.uk/_assets/media/Investing_for_Tomorrow_-_Serviceability.pdf. This includes an explanation about how our sub-measure performance translates into penalties. No penalty is due on any of the four serviceability ODIs from 2015/16 performance.

Table 4A - Non-financial information

for the year ended 31 March

	2016	
	Unmeasured customers 000s	Measured customers 000s
Number of households billed		
Water only connections	104.9	127.7
Wastewater only connections	272.0	529.6
Water and wastewater connections	315.2	1,381.3
Total	692.1	2,038.6
Number of void households	18.6	53.2
Per capita consumption (excluding supply pipe leakage) l/h/d	154.2	128.4
	Water Ml/d	Wastewater Ml/d
Wholesale volume		
Bulk supply export	37.9	2.0
Bulk supply import	2.4	7.1
Distribution input	1,089.5	-

Table 4B - Wholesale totex analysis

for the year ended 31 March

	2016		Total £m
	Water £m	Wastewater £m	
Actual totex			
1 Menu totex	333.5	430.8	764.3
Items excluded from the menu			
2 Pension deficit recovery payments	3.7	5.3	9.0
3 Third-party costs	6.2	0.8	7.0
4 Other adjustments (early start AMP6 transition spend incurred in 2014/15)	(26.8)	(28.6)	(55.4)
5 Total costs excluded from the menu	(16.9)	(22.5)	(39.4)
6 Actual totex	316.6	408.3	724.9
7 Actual totex base year prices	298.6	385.1	683.7
8 Allowed totex base year prices	344.2	435.8	780.0

The table below sets out the variance between allowed and reported totex in both 2015/16 and 2012/13 (base year) prices.

Totex variance reconciliation

	2015/16 price base			2012/13 price base		
	Water £m	Wastewater £m	Total £m	Water £m	Wastewater £m	Total £m
Reported totex (lines 6 and 7 in above table)	316.6	408.3	724.9	298.6	385.1	683.7
Less items excluded from the menu:						
Pension deficit payments (line 2 in above table)	(3.7)	(5.3)	(9.0)	(3.5)	(5.1)	(8.6)
Third-party services (line 3 in above table)	(6.2)	(0.8)	(7.0)	(5.9)	(0.7)	(6.6)
Reported menu totex	306.7	402.2	708.9	289.2	379.3	668.5
Early start AMP6 transition programme (line 4 in above table)	26.8	28.6	55.4	25.3	27.0	52.3
Adjusted reported totex (line 1 in above table)	333.5	430.8	764.3	314.5	406.3	720.8
Allowed menu totex (line 8 in above table)	365.0	462.1	827.1	344.2	435.8	780.0
Totex variance	31.5	31.3	62.8	29.7	29.5	59.2

As shown in the totex analysis above, our adjusted reported totex for the year was £764.3 million (water: £333.5 million, wastewater: £430.8 million), compared with allowed totex on an equivalent price basis of £827.1 million (water: £365.0 million, wastewater: £462.1 million). The variance of £62.8 million represents efficiencies of £46.8 million and timing differences of £16.0 million (approximately £12.5 million for wastewater and £3.5 million for water) where capital expenditure has been deferred until later in the AMP. Care should be taken in assessing totex performance for one year in isolation, as the larger capital schemes take several years to complete and as such an accurate final assessment of efficiencies achieved cannot be made until all schemes have been commissioned. However, good progress has been made so far in delivering the totex programme and the business is confident of repeating, and potentially improving on, the totex efficiencies reported in year 1.

There were no significant atypical items included in totex in the year.

Table 4C - Forecast impact of performance on RCV

for the year ended 31 March

	2016
	£m
Regulatory capital value (RCV) determined at FD	6,926.5
RCV element of totex over/underspend	(26.7)
Allowance (rewards/penalties - ODI)	-
Projected 'shadow' RCV	6,899.8

Table 4D - Wholesale totex analysis - water

for the year ended 31 March

	Units	2016						Total
		Water resources		Raw water distribution		Water treatment	Treated water distribution	
		Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage			
Operating expenditure								
Power	£m	-	8.3	4.0	-	7.6	14.2	34.1
Income treated as negative expenditure	£m	-	(0.1)	(0.1)	-	(0.1)	(0.4)	(0.7)
Service charges/discharge consents	£m	10.1	-	0.4	-	-	-	10.5
Bulk supply/bulk discharge	£m	-	-	-	-	1.5	-	1.5
Other operating expenditure	£m	-	14.8	2.4	-	26.8	74.1	118.1
Local authority rates	£m	-	3.3	0.6	-	6.8	33.2	43.9
Total operating expenditure excluding third-party services	£m	10.1	26.3	7.3	-	42.6	121.1	207.4
Third-party services	£m	0.1	1.4	1.0	-	1.5	2.2	6.2
Total operating expenditure	£m	10.2	27.7	8.3	-	44.1	123.3	213.6
Capital expenditure								
Maintaining the long-term capability of the assets - infra	£m	-	-	1.1	-	-	15.2	16.3
Maintaining the long-term capability of the assets - non-infra	£m	-	5.4	-	-	26.3	12.2	43.9
Other capital expenditure - infra	£m	-	-	1.7	-	-	30.6	32.3
Other capital expenditure - non-infra	£m	-	2.3	-	-	10.1	12.6	25.0
Total gross capital expenditure excluding third-party services	£m	-	7.7	2.8	-	36.4	70.6	117.5
Third-party services	£m	-	-	-	-	-	-	-
Total gross capital expenditure	£m	-	7.7	2.8	-	36.4	70.6	117.5
Grants and contributions (price control)	£m	-	-	-	-	-	(18.2)	(18.2)
Totex	£m	10.2	35.4	11.1	-	80.5	175.7	312.9
Cash expenditure								
Pension deficit recovery payments	£m	-	0.4	0.1	-	1.2	2.0	3.7
Other cash items	£m	-	-	-	-	-	-	-
Totex including cash items	£m	10.2	35.8	11.2	-	81.7	177.7	316.6
Unit cost information (operating expenditure)								
Licensed volume available	MI	604,951						
Volume abstracted	MI		470,191					
Volume transported	MI			105,426				
Average volume stored	MI				-			
Distribution input from water treatment	MI					397,668		
Distribution input treated water	MI						397,668	
Unit cost	£/MI	16.82	58.92	78.69	-	110.84	310.03	

Table 4E - Wholesale totex analysis - wastewater

for the year ended 31 March

	Units	2016								Total
		Sewage collection			Sewage treatment		Sludge			
		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
Operating expenditure										
Power	£m	8.1	1.2	1.1	26.0	1.8	0.4	(0.6)	0.2	38.2
Income treated as negative expenditure	£m	(0.1)	-	-	(0.6)	-	-	(5.4)	(2.9)	(9.0)
Service charges/discharge consents	£m	0.8	0.3	0.1	5.2	0.3	-	-	-	6.7
Bulk supply/bulk discharge	£m	-	-	-	-	-	-	-	-	-
Other operating expenditure	£m	54.7	15.7	5.2	65.4	4.0	21.1	27.8	10.3	204.2
Local authority rates	£m	-	-	-	20.9	1.4	-	3.3	-	25.6
Total operating expenditure excluding third-party services	£m	63.5	17.2	6.4	116.9	7.5	21.5	25.1	7.6	265.7
Third-party services	£m	-	-	-	0.5	-	-	0.2	-	0.7
Total operating expenditure	£m	63.5	17.2	6.4	117.4	7.5	21.5	25.3	7.6	266.4
Capital expenditure										
Maintaining the long-term capability of the assets - infra	£m	20.2	-	-	-	-	-	-	-	20.2
Maintaining the long-term capability of the assets - non-infra	£m	13.6	-	-	53.9	-	-	12.6	-	80.1
Other capital expenditure - infra	£m	22.1	-	-	-	-	-	-	-	22.1
Other capital expenditure - non-infra	£m	6.0	-	-	17.5	-	-	(0.6)	-	22.9
Total gross capital expenditure excluding third-party services	£m	61.9	-	-	71.4	-	-	12.0	-	145.3
Third-party services	£m	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	£m	61.9	-	-	71.4	-	-	12.0	-	145.3
Grants and contributions (price control)	£m	(8.8)	-	-	-	-	-	-	-	(8.8)
Totex	£m	116.6	17.2	6.4	188.8	7.5	21.5	37.3	7.6	402.9
Cash expenditure										
Pension deficit recovery payments	£m	1.1	0.3	0.1	2.2	0.1	0.7	0.6	0.3	5.4
Other cash items	£m	-	-	-	-	-	-	-	-	-
Totex including cash items	£m	117.7	17.5	6.5	191.0	7.6	22.2	37.9	7.9	408.3
Unit cost information (operating expenditure)										
Volume collected foul	MI	245,732								
Volume collected surface water drainage	MI		43,169							
Volume collected highway drainage	MI			43,169						
Biochemical Oxygen Demand (BOD) sewage	Tonnes				152,643					
Biochemical Oxygen Demand (BOD) imported sludge liquor	Tonnes					15,264				
Sludge volume transported	m ³						2,715,328			
Sludge treatment dried solid mass treated	ttds							211.7		
Sludge disposal dried solid mass disposed	ttds								203.5	
Unit cost	£/unit	258.66	396.80	148.19	768.93	491.43	7.94	119,210.40	37,761.34	

Table 4F - Operating cost analysis - household retail

for the year ended 31 March

	2016								Total £m
	Household unmeasured				Household measured				
	Water only £m	Wastewater only £m	Water and wastewater £m	Total £m	Water only £m	Wastewater only £m	Water and wastewater £m	Total £m	
Operating expenditure									
Customer services	0.4	1.3	1.6	3.3	1.6	1.6	9.1	12.3	15.6
Debt management	0.2	0.7	2.1	3.0	0.1	0.7	4.0	4.8	7.8
Doubtful debts	0.7	3.1	4.7	8.5	0.5	3.9	17.6	22.0	30.5
Meter reading	-	-	-	-	0.3	0.2	2.6	3.1	3.1
Other operating expenditure	0.3	0.5	2.1	2.9	0.4	0.9	9.4	10.7	13.6
Total operating expenditure excluding third-party services	1.6	5.6	10.5	17.7	2.9	7.3	42.7	52.9	70.6
Depreciation	-	0.2	0.2	0.4	-	0.3	0.8	1.1	1.5
Total operating costs excluding third-party services	1.6	5.8	10.7	18.1	2.9	7.6	43.5	54.0	72.1
									Total £m
Other operating expenditure - breakdown									
Demand-side water efficiency - gross expenditure									1.7
Demand-side water efficiency - expenditure funded by wholesale									-
Demand-side water efficiency - net retail expenditure									1.7
Customer-side leak repairs - gross expenditure									1.0
Customer-side leak repairs - expenditure funded by wholesale									1.0
Customer-side leak repairs - net retail expenditure									-

Table 4G - Wholesale current cost financial performance

for the year ended 31 March

	2016		Total £m
	Water £m	Wastewater £m	
Revenue	436.5	636.7	1,073.2
Operating expenditure	(213.6)	(266.4)	(480.0)
Capital maintenance charges	(128.0)	(261.9)	(389.9)
Other operating income	7.3	9.8	17.1
Current cost operating profit	102.2	118.2	220.4
Other income	-	-	-
Interest income	75.7	120.7	196.4
Interest expense	(102.4)	(163.3)	(265.7)
Interest expense related to the unwinding of discounted liabilities	(0.2)	(0.2)	(0.4)
Profit before tax and fair value movements	75.3	75.4	150.7
Fair value losses on financial instruments	(32.7)	(52.2)	(84.9)
Profit before tax	42.6	23.2	65.8

Table 4H - Financial metrics

for the year ended 31 March

	2016 Metric
Net debt	£5,696.4m
Regulated equity	£1,230.1m
Regulated gearing	82.2%
Post-tax return on regulated equity	5.5%
RORE (return on regulated equity)	6.6%
Dividend yield	11.8%
Retail profit margin - Household	0.8%
Retail profit margin - Non-household	2.5%
Credit rating	Baa1
Return on RCV	4.7%
Dividend cover	0.9
Funds from operations (FFO)	£364.4m
Interest cover (cash)	2.7
Adjusted interest cover (cash)	1.4
FFO/debt	0.1
Effective tax rate	4.1%
Regulated free cash flow (RCF)	£26.0m
RCF/capex	0.1
Revenue (actual)	£1,154.9m
EBITDA (actual)	£610.0m
Proportion of borrowings which are fixed rate	36.0%
Proportion of borrowings which are floating rate	5.5%
Proportion of borrowings which are index-linked	58.5%
Proportion of borrowings due within 1 year or less	6.5%
Proportion of borrowings due in more than 1 year but no more than 2 years	0.8%
Proportion of borrowings due in more than 2 years but no more than 5 years	9.9%
Proportion of borrowings due in more than 5 years but no more than 20 years	54.4%
Proportion of borrowings due in more than 20 years	28.4%

All the above financial metrics exclude intra-group interest receivable of £192.8 million and the corresponding £192.8 million of dividends paid to Anglian Water Services Holdings Limited, a parent undertaking, in order to service this interest on an intra-group loan.

Table 4I - Financial derivatives

for the year ended 31 March

	2016							
	Nominal value by maturity (net)			Total value		Total accretion	Interest rate (weighted average)	
	0 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable	Receivable
Interest rate swap (sterling)								
Floating to/from fixed rate	455.0	-	2,064.2	2,519.2	(251.8)	-	2.9%	2.0%
Floating to/from index-linked	-	-	565.9	565.9	(553.2)	(68.9)	2.0%	1.2%
Fixed to/from index-linked	-	-	-	-	-	-	-	-
Total	455.0	-	2,630.1	3,085.1	(805.0)	(68.9)		
Currency interest rate								
Currency interest rate swaps USD	-	-	704.8	704.8	57.9	-	2.9%	4.3%
Currency interest rate swaps EUR	394.0	-	-	394.0	2.1	-	5.9%	6.3%
Currency interest rate swaps YEN	-	91.0	-	91.0	42.8	-	1.4%	3.0%
Currency interest rate swaps Other	-	-	-	-	-	-	-	-
Total	394.0	91.0	704.8	1,189.8	102.8	-		
Total	849.0	91.0	3,334.9	4,274.9	(702.2)	(68.9)		

Notes to the Annual Performance Report

The following notes set out additional policies and disclosures required by the Regulatory Accounting Guidelines which have not already been covered by the preceding tables and associated commentaries.

1 General

The Company's activities are regulated by the conditions of a Licence granted to the Company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function; these business activities are referred to as non-appointed business (see note 3).

Under the Regulatory Accounting Guidelines the classification of certain balances within the Annual Performance Report differs from that disclosed in the statutory financial statements. A reconciliation of the differences is provided in Tables 1A to 1D.

The narrative disclosures required by RAG 3.08, section 4 are provided with the relevant tables, with the exception of the tax reconciliations which are provided in note 9.

2 Accounting policies

(a) Revenue recognition

The following detailed policy on revenue recognition supplements the turnover accounting policy within the statutory financial statements.

- (i) *Occupied properties are chargeable for water and sewerage, and revenue is recognised based on services supplied. The identity of the occupier is ascertained by either contact initiated from the occupier, completion of a questionnaire sent out by the Company to the premises, a visit by a customer services representative or searches of publicly available property data. Unoccupied and unfurnished properties are non-chargeable and therefore no billing is raised and no turnover recognised. The status of a property as unoccupied/void is confirmed by reading of the meter to ascertain changes in consumption, or in relation to unmeasured properties through providing a questionnaire for completion and return by any occupier, plus an inspection where considered necessary.*
- (ii) *Household and non-household charges apply to vacant premises in certain circumstances as set out in our Legal Charges Scheme as approved by Ofwat on an annual basis, and revenue is recognised on these properties consistent with occupied properties. Vacant premises, which attract charges include:*
- Premises which are left unoccupied for periods of time but are left with bedding, a desk or other furniture so that they may be used as a dwelling or as office or commercial premises
 - Furnished premises used for multiple occupation with shared facilities
 - Furnished premises used as holiday, student, hostel or other accommodation
 - Furnished premises used for short-term occupation or letting where the occupation or term of the tenancy is for less than six months
 - Premises in respect of which renovation or building work is being undertaken
 - Premises which are not normally regarded as being occupied such as cattle troughs and car parks
 - All metered premises (furnished and unfurnished) where water is being consumed.
- Further, the following provisions are applied in respect of disconnections:
- Premises listed in Schedule 4A of the Water Industry Act 1991 (e.g. any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges.
 - If the water supply to any premises is disconnected for any reason but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected, in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied.
 - If it is subsequently found that the premises were occupied for any period when we were advised that the premises would be unoccupied, we will apply the appropriate Sewerage Unmeasured Tariff to that period, raise appropriate retrospective bills and recognise revenue at that point.
 - In the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence and revenue be recognised. 'Occupier' is defined to include any person who owns premises as set out in part (i), above, and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (e.g. a Bulk Meter Agreement).
- (iii) *Charges on income relating to debt recovery costs, which are chargeable to customers, are credited to operating costs and charged to the relevant customer account. Turnover is unaffected by these debt recovery costs. Historically, we have only sought to recover court and solicitors' fees where we have issued a court summons. From 2009/10 the Legal Charges Scheme was amended to allow debt recovery agency fees to be recharged to customers.*
- (iv) *As soon as new properties are occupied and furnished or consumption is recorded, liability for water and sewerage charges commences, and revenue starts to accrue.*

Notes to the Annual Performance Report continued

2 Accounting policies continued

(b) Bad debt

The bad debt provision is calculated based on applying expected recovery rates, based on actual historical cash collection performance, for an aged debt profile. Debt is written off when it falls into one of the following categories:

- The debt is the subject of insolvency proceedings and a claim has been submitted
- The customer has absconded and subsequent trace activities have proven unsuccessful
- County Court proceedings and attempts to recover the debt by a collection agency have been unsuccessful
- The age and value of debt make it uneconomic to pursue.

The debt written off in the current year was £31.4 million (2015: £26.3 million). There have been no changes to debt write-off policies during the year. The provision rate for debt in excess of four years old has been increased in the year from 99 per cent to 100 per cent.

(c) Capitalisation policy

The capitalisation policy applied to the APR is consistent with that used in the statutory accounts, with the exception of the capitalisation of interest. This has been excluded from the APR as per the guidance in RAG 1.06, section 1.6.

3 Information relating to allocations and apportionments between the appointed and any other business or activity of the appointee or associated company

The non-appointed business relates mainly to legal searches to locate utility infrastructure, domestic emergency and personal accident insurance cover, recreation services, leisure services and the provision of consultancy services. The North Tees water supply agreement to the Huntsman Petrochemical site, which is not in the Anglian Water area, has also been treated as non-appointed business.

A proportion of the operating costs relating to these activities is directly incurred and does not require allocation. Other relevant costs have been allocated according to time spent on these activities, volume of water supplied to customers, or in proportion to direct costs.

4 Allocation to principal service

(i) Operating costs are incurred directly by the specific service and have not required allocation. Indirect costs are allocated on either a causal link basis or according to local managers' assessments. The allocation to principal service of the charge for infrastructure renewals is based on the Asset Management Plan.

(ii) Capital costs and hence depreciation charges are initially recorded in the business unit of principal use. Where required, we have recharged the cost of depreciation to other areas of the business, specifically support services for the use of IT and vehicles.

5 Price control segments

In order to produce the APR, and in addition to the accounting structure used for internal management reporting, we have created a separate regulatory cost structure in our financial system. This means that operating costs relating to water, sewerage, household retail and non-household retail price controls can largely be directly assigned. Where costs are not directly coded to a specific price control, management has assessed an appropriate allocation in accordance with the RAGs.

Likewise, capital expenditure is also largely directly attributable to price control, with an appropriate allocation where this is not possible.

All cost allocations have been carried out in line with the guidance in RAG 2.05, with no material impact on the allocation of costs between price controls when compared to the previous year. More detail on our cost allocation processes can be found in our accounting separation methodology statement on our Company website: www.anglianwater.co.uk

6 Link between Directors' pay and standards of performance

Directors' pay comprises a package of base salary together with an annual performance-related bonus and eligibility for an award under a long-term incentive plan which is also Company performance related. Directors' bonuses paid by the Company are linked to the standards of performance of the Company and, therefore, in accordance with RAG 3.07. Details of Directors' pay can be found in the Remuneration Report on pages 104 to 135.

7 Measured income

In accordance with RAG 3.08 we highlight the following comments in respect of turnover for the year:

Appointed turnover for the year ended 31 March 2015 included a measured income accrual of £260.8 million (year ended 31 March 2014: £254.6 million). The value of billing recognised in the year ended 31 March 2016 for the prior year was £260.4 million. This has resulted in the recognition in the current year's turnover of an estimation difference for the prior year of £0.4 million (2015: £8.6 million), representing 0.05 per cent of current year measured turnover (2015: 1 per cent) and within acceptable tolerances for accounting estimates.

8 Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of the Directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (j) below.

(a) Receivables

Receivables totalling £0.8 million were outstanding from other Group companies at 31 March 2016 (2015: £2.0 million).

(b) Payables

An amount payable of £45.7 million was owed to Anglian Water Services Financing Plc at 31 March 2016 (2015: £45.4 million).

(c) Borrowings

Sums borrowed, including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2016, were:

Type of loan	Principal amount (v) £m	Repayment date	Interest rate %
Fixed rate	394.0	2016	7.012
Fixed rate (iv)	75.0	2017/2040	5.500
Fixed rate	25.5	2017	4.195
Fixed rate	63.6	2021	5.387
Fixed rate	197.2	2021	5.490
Fixed rate	250.0	2022	5.837
Fixed rate	31.9	2022	3.983
Fixed rate	22.3	2022	3.983
Fixed rate	30.0	2022	5.392
Fixed rate	200.0	2023	6.875
Fixed rate	7.0	2023	3.605
Fixed rate	93.0	2023	3.537
Fixed rate	100.2	2023	5.027
Fixed rate	100.0	2026	4.500
Fixed rate	25.0	2027	4.500
Fixed rate	73.3	2028	4.394
Fixed rate	200.0	2029	6.625
Fixed rate	246.0	2030	6.293
Fixed rate	25.0	2034	6.875
Floating rate (iv)	75.0	2017/2040	LIBOR plus 0.682
Floating rate (iv)	65.9	2018/2037	LIBOR plus 0.530
Floating rate (iv)	25.1	2019/2038	LIBOR plus 1.130
Floating rate	99.1	2021	LIBOR plus 0.888
Floating rate	225.0	2027	LIBOR
Floating rate	103.5	2023	LIBOR plus 1.010
Floating rate	100.0	2026	LIBOR
Floating rate	110.0	2043	LIBOR plus 0.850
Floating rate	100.0	2057	LIBOR plus 0.340
Index-linked (i)	61.2	2019	1.626
Index-linked (i)	60.2	2020	1.300
Index-linked (i)	234.7	2020	4.125
Index-linked (i)	16.1	2022	1.370
Index-linked (i)	111.9	2024	3.666
Index-linked (i)	82.0	2027	0.530
Index-linked (i)	82.0	2027	0.790
Index-linked (i)	159.2	2028	0.000
Index-linked (i)	67.1	2029	0.410
Index-linked (i)	127.3	2029	0.100
Index-linked (i)	60.8	2030	0.010
Index-linked (i)	298.3	2032	3.070
Index-linked (i)	90.0	2032	3.070
Index-linked (i)	53.8	2033	2.050
Index-linked (i)	552.3	2035	2.400
Index-linked (i)	36.9	2042	1.141
Index-linked (i)	154.1	2045	2.262
Index-linked (i)	66.9	2046	1.700
Index-linked (i)	66.9	2046	1.700
Index-linked (i)	80.3	2049	1.790
Index-linked (i)	64.1	2055	1.520
Index-linked (i)	53.5	2056	1.715
Index-linked (i)	66.9	2056	1.678
Index-linked (i)	66.9	2056	1.383
Sub-total carried forward	5,776.0		

Notes to the Annual Performance Report continued

8 Information in respect of transactions with any other business or activity of the appointee or any associated company continued

Type of loan	Principal amount (v) £m	Repayment date	Interest rate %
Sub-total brought forward	5,776.0		
Index-linked (i)	133.8	2057	1.378
Index-linked (i)	96.1	2062	1.449
Index-linked swaps (ii)	33.4	2057	
Index-linked swaps (iii)	1.7	2024	
Index-linked swaps (iii)	1.9	2030	
Index-linked swaps (ii)	12.1	2043	
Index-linked swaps (ii)	18.6	2059	
Index-linked swaps (iii)	1.3	2061	
Swaption	-	2046	
Swaption	-	2046	
Total	6,074.9		

LIBOR is the London Inter-Bank Offer Rate.

- (i) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index (RPI).
- (ii) The value of the notional capital on these index-linked swaps is linked to movements in RPI. The increase in the notional capital value is payable at the final maturity date of the swaps.
- (iii) The value of the notional capital on these index-linked swaps is linked to movements in RPI. The increase in the notional capital value is paid-down at pre-determined dates during the lifetime of the index-linked swaps.
- (iv) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.
- (v) All loans are presented on a post-hedge basis to reflect the effect of the related swaps.

(d) Dividend policy

The Company's dividend policy is to identify the cash available for distribution, allowing for the business' liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the remainder of the current regulatory period. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the Asset Management Plan period 31 March 2020) and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows. The Directors consider this cash-based approach provides an acceptable return to the equity investors whilst ensuring the liquidity requirements of the business are fully met. 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 Services Limited and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these are also limited by financial covenant constraint. The Company's business plan for AMP6 is to target gearing below 80 per cent by 2020. This policy is consistent with Condition F of the Licence.

A dividend of £338.4 million is payable for the year (2015: £366.5 million) in respect of the appointed business. Of this dividend, £192.8 million (2015: £192.3 million) was paid/committed to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the Company on the inter-company loan of £1,602.6 million (2015: £1,602.6 million) (see note 10 on page 158).

(e) Guarantees/securities

The Company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2016 amounted to £6,904.2 million (2015: £7,073.7 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the Company.

Excluding the £1,602.6 million (2015: £1,602.6 million) loan made by the Company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2016 (2015: £nil).

(f) Supply of services

Recharges by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Legal	AWG Group Limited	Actual costs	0.2
HR, Payroll, OHS, Regulation	AWG Group Limited	Actual costs	0.7
CEO	AWG Group Limited	Actual costs	0.6
Corporate affairs	AWG Group Limited	Actual costs	0.4
Finance	AWG Group Limited	Actual costs	0.5
IT	AWG Group Limited	Actual costs	0.1
Commercial time and advice	Anglian Water Business National Limited	Actual costs	0.3
Accommodation	AWG Group Limited	Actual costs	0.1
Laboratory charges	Alpheus Environmental Limited	Actual costs	0.1
Trade effluent charges	Alpheus Environmental Limited	Actual costs	0.2
Land rental	Alpheus Environmental Limited	Actual costs	0.2
Vehicle	AWG Group Limited and Alpheus Environmental Limited	Actual costs	0.1
			3.5

Services supplied to the appointee by associated companies excluding amounts paid for taxation group relief:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Directors' costs	AWG Group Limited	-	Time apportionment	0.2
Internal audit services	AWG Group Limited	-	Negotiated	0.5
Insurance administration	AWG Group Limited	-	Negotiated	0.7
Income protection costs	AWG Group Limited	-	Negotiated	0.3
Taxation services	AWG Group Limited	-	Negotiated	0.2
External audit services	AWG Group Limited	-	Negotiated	0.2
Pension admin, advice and audit	AWG Group Limited	-	Pass through	0.1
Miscellaneous items	AWG Group Limited	-	Pass through	0.2
Building rental	AWG Group Limited	-	Pass through	0.1
Office accommodation – Lancaster House	Ambury Developments Limited	0.5	Other market testing	0.4
Bulk purchase of water	Ardleigh Reservoir Committee ¹	1.2	Actual costs	0.8
				3.7

¹ Joint venture between Anglian Water and Affinity for a single reservoir and treatment works.

(g) Charitable and political donations

During the year, the business donated £40,000 (2015: £40,000) to WaterAid, its recognised charity.

No political donations were made (2015: £nil).

The Company made available £1.00 million (2015: £0.38 million) to the Anglian Water Assistance Fund, which paid a total of £0.74 million (2015: £0.43 million) directly to customers who qualified for assistance, and that amount is included as an operating cost in these financial statements.

(h) Omissions of rights

No material omissions took place during the year.

(i) Waivers

There were no material waivers during the year.

(j) Compliance with Condition K

The Company has been compliant with Condition K3.1 of the Licence throughout the year.

Notes to the Annual Performance Report continued

9 Current tax reconciliations

A reconciliation of the appointed UK corporation tax charge reported in Table 1A to that resulting from applying the standard tax rate to the profit on ordinary activities before tax as shown in Table 1A is set out below.

	£m
Profit per the Annual Performance Report	185.0
Corporation tax charged at 20%	37.0
Depreciation and amortisation	52.3
Capital allowances	(48.5)
Items not taxable	(0.7)
Items not deductible for tax purposes	3.4
Short-term timing differences	(3.9)
Fair value losses on financial instruments (not deductible)	17.9
Group relief utilised	(38.6)
Adjustments in respect of previous years	(7.7)
Current tax charge for the year	11.2

The table below sets out the reconciliation between the UK corporation tax charge reported in Table 1A to the total current tax charge allowed in price limits.

	£m
Tax charge allowed in price limits	20.2
Tax effect at 20% of:	
Increase in profit before tax	1.5
Increase in disallowable depreciation and amortisation	0.1
Increase in capital allowances	(3.8)
Reduction in pension deductions	1.3
Other	(1.2)
Current tax charge before adjustments for previous years	18.1
Adjustments for previous years	(7.7)
Tax charge in adjusted APR	10.4
Reversal of capital allowances disclaimers ¹	0.8
Tax charge in APR	11.2

¹ When preparing the tax calculation for the price limits, Anglian Water Services Limited is treated as a stand-alone entity and any capital allowances disclaimers made for Group purposes are reversed. In order to prepare a true reconciliation we have calculated the effect of this reversal.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17 per cent from 1 April 2020. Changes to reduce the UK corporation tax rate to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020 had already been substantively enacted on 26 October 2015.

The Base Erosion and Profit Shifting (BEPS) rules are being considered at an international level. In particular BEPS Action 4 regarding the deductibility of interest could have a significant impact on highly leveraged groups, depending on the final legislation.

Independent auditors' report

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Anglian Water Services Limited

Opinion on Annual Performance Report

In our opinion, Anglian Water Services Limited's Regulatory Accounting Statements within the Annual Performance Report:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.06, RAG2.05, RAG3.08, RAG4.05 and RAG5.06) and the accounting policies set out on pages 219 to 220 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ('IFRSs').

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 192 to 196 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The tables within company's Annual Performance Report that we have audited ('the Regulatory Accounting Statements') comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis – wholesale (table 2B), the operating cost analysis – retail (table 2C), the historical cost analysis of fixed assets (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis and wholesale control reconciliation (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ('Condition F'). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities for regulatory information set out on page 190, the directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'), except as stated in the section on 'What an audit of the Annual Performance Report involves' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent auditors' report continued

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Integrated Report to identify material inconsistencies with the audited tables within the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISAs (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in notes to the Annual Performance Report and its Accounting Separation Methodology Statement published on the Company's website. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Other matters

The nature, form and content of the Annual Performance Report is determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 27 May 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'Statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham
27 May 2016

Glossary of regulatory terms

- AMP adjustment** – the revision in the real value of fixed assets arising periodically from improved information, notably in the five-year Asset Management Plan process.
- Annual Performance Report (APR)** – report produced by the Company for regulatory reporting purposes, known previously as the Regulatory Accounts.
- Appointed business** – the appointed business comprises the regulated activities of the Company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
- Arm's-length trading** – arm's-length trading is where the Company treats the associate companies on the same basis as external third parties.
- Asset Management Plan (AMP)** – a plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP5 covers April 2010 to March 2015 and AMP6 covers April 2015 to March 2020.
- Associate company** – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.
- Committed Performance Level (CPL)** – in consultation with Ofwat and our customers, we have set measurable targets for each ODI that represent the delivery of our outcomes.
- Final Determination (FD)** – this is the conclusion of discussions on the scale and content of the Asset Management Plan for the forthcoming five-year period. It is accompanied by a determination of the allowable 'K' factor for the forthcoming five-year period.
- K factor** – the annual increase, set by Ofwat, in charges that companies in the water industry can make. The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula $RPI + or - 'K' + 'U'$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers, and 'U' is the amount of 'K' not taken up by a company in previous years.
- License** – the Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
- Menus** – menu regulation is an innovative system in which companies are presented with a choice of regulatory contracts. Companies are rewarded or penalised based on how well their business plan matches expenditure during the subsequent price control.
- Non-appointed business** – the non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).
- Ofwat** – the name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.
- Outcome Delivery Incentives (ODIs)** – the outcomes against which the performance of water and sewerage companies is assessed by Ofwat, which can result in both financial and reputational rewards and penalties.
- Periodic Review** – the price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the 'K' factor – see above).
- Price Control Units** – at the 2014 price review, Ofwat introduced separate price controls for wholesale water, wholesale wastewater, retail household and retail non-household.
- Regulatory Accounting Guidelines (RAG)** – the accounting guidelines for APR issued, and amended from time to time, by Ofwat.
- Regulatory Capital Value (RCV)** – the capital base used in setting price limits; the value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (ie. after current cost depreciation and infrastructure renewals accrual).
- Retail Price Index (RPI)** – the RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.
- Retail services** – the elements of the business responsible for direct contact with customers e.g. the contact centre, billing and reading meters. The Water Act 2014 will enable all business customers to choose their retail supplier from April 2017.
- Service Incentive Mechanism (SIM)** – Ofwat's measure of customer satisfaction based on surveys of customers who have contacted the Company and the number of contacts received which express dissatisfaction.
- Third-party contributions since 1989/90** – grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.
- Totex** – total expenditure comprising operational expenditure (Opex) and capital expenditure (Capex).
- Water and Sewerage Company (WASC)** – a company responsible for the provision of both water and sewerage services.
- Wholesale services** – the elements of the business responsible for the abstraction, treatment and distribution of water and the collection, treatment and disposal of sewage and sludge.
- Working capital** – the aggregate of stocks, trade debtors and trade creditors, if material.

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